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S. Hrg. 103-106

FEDERAL JOB MOVEMENT DATA AND THE IMPLICATIONS FOR NAFTA

HEARINGS

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT

OF THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

APRIL 1, 1993

WILL JOBS BE AMERICA'S BIGGEST EXPORT UNDER NAFTA?

APRIL 28, 1993

OVERSIGHT OF FEDERAL TRADE DATA: WHAT WE DON'T KNOW COULD HURT US

Printed for the use of the Committee on Governmental Affairs

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APRIL 28, 1993 HEARING:

WILL JOBS BE AMERICA'S BIGGEST EXPORT UNDER NAFTA?

THURSDAY, APRIL 1, 1993

U.S. SENATE,
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT, COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 9:04 a.m., in room SD-342, Dirksen Senate Office Building, Hon. Carl M. Levin, Chairman of the Subcommittee, presiding.

Present: Senators Levin, Akaka, and McCain.

Staff Present: Linda J. Gustitus, Staff Director and Chief Counsel; Alison Pascale, Legislative Assistant to Senator Levin; Frankie de Vergie, Chief Clerk; Kim Corthell, Minority Staff Director; Roger Martino, Majority Legislative Fellow; and Nate Rice, Majority Intern.

OPENING STATEMENT OF SENATOR LEVIN

Senator LEVIN. Good morning, everybody. We are going to start close to on time this morning because we have a vote at 9:45, and it is going to be a little bit cut up. So we are going to have to recess probably at around 9:45 for a few minutes. We will go over and vote. We expect a number of other Senators here this morning, and then we will come back.

There is a classic paraphrase of the Hippocratic oath that reminds us that practitioners of medicine are first sworn "to do no harm." It is an important warning in any discipline, and especially in Government when the decisions that we make affect millions of lives and the futures of thousands of communities. One of those decisions is scheduled to come before Congress soon, and that is the new proposed treaty with Mexico and Canada called the North American Free Trade Agreement.

We have been told not to worry about potential job loss from this agreement, that the net effect will boost the economy of the three nations as Mexico becomes a market for our goods and our services. But our ability to predict our economic future depends upon our ability to assess our past and our present performance. And when it comes to the movement of jobs to Mexico, our Government's information is full of holes.

Before we can begin to know if this agreement not only "does no harm" but actually serves the interests of the United States, it is our job to understand the current situation as clearly as we can.

The Republic of Mexico established in 1965 what is called the maquiladora program. This program allows American companies to ship raw materials and parts into Mexico duty-free, providing the finished or partially assembled product is shipped back to the United States or exported to a third country.

With labor rates in Mexico a fraction of our labor rates in the United States—the minimum wage in Mexico, for example, is 57 cents—and with regulatory enforcement in Mexico weak, some 2,000 maquiladora plants are now operating in Mexico. A large portion of those plants are owned by or operated on behalf of American companies. But what does the Federal Government know about how many of those plants are actually plants that were moved from the United States to Mexico? The answer is: Not much. And if we don't have sufficient information about what has happened in the past, we can have little confidence in our ability to judge the impacts of a new policy.

The Subcommittee has learned that the Federal Government simply does not know with any precision how many American jobs have been lost to plant relocation in Mexico over the past decade. So it certainly doesn't know why companies make such a move and what may induce them to do so in the future. That failure means that the Federal Government has no statistical basis to measure the impact of NAFTA on American jobs.

We asked the Congressional Research Service to analyze the responses that we got from the Departments of Labor and Commerce when we asked them for information on job movement to Mexico. The CRS concluded that despite 15 years of congressional interest in and requests for this information, the data is still unavailable. According to CRS, and I am quoting:

"[A]fter two legislative attempts to mandate collection of these data, the Government publishes no counts of U.S. plant closings, and almost no information on plant relocations . . . [N]o comprehensive Federal data are regularly published on how many plants have relocated to Mexico, where the plants have relocated from, what industries they are in, and how many U.S. jobs have been lost as a result . . . No complete Government data base tracks business decisions pre-NAFTA . . . Without full data on current relocation trends, it becomes even more difficult to estimate with any reliability the potential for additional plants moving to Mexico (and the consequences of such dislocation) after the added incentive of NAFTA."

That is what the CRS says about the missing information that we have on plant relocations, and the consequences of our lack of data, the CRS states, is that our policy decisions are being made, to a great extent, "in the dark." I am releasing a copy of that CRS report relative to the lack of data base that this Government does not have. I am releasing a copy of that report at this hearing this morning.

Today we have a witness representing the privately funded Resource Center of Albuquerque, New Mexico, which has tried to do what the Federal Government has failed to do. It has attempted to track plant movement to Mexico. To do this, it had to scour newspaper articles, talk with local and international unions, review American and Mexican directories on foreign-owned maquiladoras

in Mexico and other private data collected by various organizations. Today it will release the list of 197 plants that it has confirmed moved from the United States to Mexico since 1983. This is only a partial list of plant movement to Mexico. First, it is based on a very narrow definition of plant closing; second, it does not include an additional 300-plus plants that the Resource Center suspects have moved to Mexico but are still being verified; and, third, as their representative, Harry Browne will testify, there is a significant number of categories of job losses which they have simply excluded from their survey.

The map on the wall is a representation of the Resource Center's list of 197 plants that they have confirmed to date that have moved to Mexico.[1] The map next to it shows the number of Mexican plants that the Resource Center believes have moved to the United States during the same period.[2] That map is a blank. The maps speak for themselves.

In looking at the types of jobs that have been created in Mexico's maquiladora area, it is apparent that the jobs that have been moving to Mexico are not low-wage jobs. About three-quarters of the maquiladora jobs are in the electronics and motor vehicle industries, in which wages are either close to average or well above average.

Today we will also see what it means to lose a job when a plant closes in the United States. We will hear from three witnesses who lost their jobs despite some 20 years of employment with their former companies. They were given little or no severance pay and were actually directed to pack their own equipment up and ship it to Mexico. Some of their colleagues were even directed to go to Mexico to train the work force that took their jobs.

These experienced workers, many of them in their 50's, found themselves out of a job, with little hope of starting over. The Subcommittee staff looked at whether retraining programs were available and to what extent they were helpful. At both plants, of those workers deemed eligible for retraining, 42 percent took part in some type of training. At the Michigan plant, 39 of the 79 participating in a training program found some type of job, but only 7 to 10 people found jobs at comparable wages. At the Indiana plant, only 24 of the 101 workers participating in retraining found jobs; the average wage earned was just a little over $6 an hour. In short, the retraining opportunities were only marginally helpful.

The Subcommittee invited both companies involved in these job losses, Modine Heat Transfer and United Technologies Automotive, to send representatives to testify today, and they both declined the invitation.

Even as we hold this hearing today, Mexico's low wages are being touted in promotional literature generated to entice American companies to move to Mexico, both by Mexican governments and brokers and "shelter" operators eager to move American companies to Mexico. Brokers are companies created for the sole purpose of promotion plant relocation to Mexico and making the move as easy as possible. Shelter operators go beyond brokers and actual-

[1] See page 234.
[2] See page 235.

ly often rent the building, hire the employees, and manage the day-to-day operations of a Mexican plant on behalf of a company.

I have enlarged one example of promotional literature, which is an advertisement by the government of the Mexican state of Yucatan. It shows an American businessman scratching his head and saying to himself: "I can't find good, loyal workers for a dollar an hour within a thousand miles of here."

The advertisement then goes on to point out that such workers are, indeed, available in the Mexican province of Yucatan. "Yes You Can in Yucatan," it says. "When the U.S. is too expensive and the Far East too far, we are only 460 miles and 90 minutes by air from the United States. Labor costs average under $1 an hour, including benefits. Far lower than in the Far East. And you could save over $15,000 a year, per worker, if you had an offshore production plant here." [1]

We have a witness today, Tom Fairfax, who was employed as a shelter operator for a number of years, and he will tell us just how these companies work, what motivates their customers—American manufacturers—to move to Mexico and how they go about moving. Having been directly involved in plant relocation to Mexico, Mr. Fairfax will also give us his perspective on what NAFTA will mean to that process.

In conclusion, today we will see the painful anatomy of two plant closings and hear about the movement of those plants to Mexico. We will see that the promise of retraining to those left behind is no substitute for a job and in only a minority of the cases led to a job. We will hear testimony from an individual who has worked closely with companies that have moved to Mexico who would tell us that there will be an increase in those plant closings under NAFTA. And, of great importance, we will see just how inadequate our Government data is for telling us how many and what types of American manufacturing jobs have gone to Mexico.

Prepared Statement of Senator Levin

There is a classic paraphrase of Hippocrates' "Physician's Oath" that reminds practitioners of medicine, "First, do no harm." It is an important warning in any discipline and especially in Government when the decisions we make affect millions of lives and jobs and the futures of thousands of communities. One of those decisions is scheduled to come before Congress soon, and that is the new economic treaty with Mexico and Canada called the North American Free Trade Agreement.

We've been told not to worry about potential job loss from this treaty; that the net effect will boost the economies of the three nations as Mexico becomes a market for our goods and services. But our ability to predict our economic future depends upon our ability to assess our past and present performance, and when it comes to the movement of jobs to Mexico, our Government's information is full of gaps.

Before we can begin to know if this treaty not only "does no harm" but actually serves the interests of the United States, it's our job to understand the current situation as clearly as we can.

The Republic of Mexico established in 1965 what is called the Maquiladora program. This program allows U.S. companies to ship raw materials and parts into Mexico duty free providing the finished or partially assembled product is shipped back to the U.S. or exported to another country.

With labor rates in Mexico a fraction of labor rates in the United States—the minimum wage in Mexico, for example, is 57 cents—and with regulatory enforcement in Mexico weak, some 2,000 maquiladora plants are now operating in Mexico. A large portion of those plants are owned by or operated on behalf of American

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companies. But what does the Federal Government know about how many of those plants are actually plants that were moved from the U.S. to Mexico? The answer is, not much. And if we don't have sufficient information about what's happened in the past, we can have little confidence in our ability to judge the impacts of a new policy.

The Subcommittee has learned that the Federal Government simply does not know with any precision how many American jobs have been lost to plant relocation in Mexico over the past decade. So it certainly doesn't know why companies make such a move and what may induce them to do so in the future. That failure means the Federal Government has no statistical basis to measure the impact of NAFTA on American jobs.

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The maps on the wall represent the Resource Center's list of 197 plants that they have confirmed to date that have moved to Mexico. It shows the partial, anecdotal evidence. The map next to it shows the number of Mexican plants that the Resource Center believes have moved to the U.S. during the same period, 1983–93. I think the maps speak for themselves.

In looking at the types of jobs that have been created in Mexico's maquiladora section, it is apparent that the jobs that have been moving to Mexico are not low-wage jobs. Three-quarters of the maquiladora jobs are in the electronics and motor vehicle industries, in which wages are either close to average or well above average.

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Senator LEVIN. We are pleased to have Senator McCain with us this morning. Senator McCain.

OPENING STATEMENT OF SENATOR McCAIN

Senator MCCAIN. Thank you, Mr. Chairman.

I recognize your concerns about a North American Free Trade Agreement, and I welcome the opportunity for members of this Subcommittee to examine the impact of NAFTA on employment in the U.S.

I might add that I have examined this impact for many years now. It is clear to me that there will be a net increase in jobs. I can provide many studies in order to indicate those facts.

I also would refer you to the large body of economists who believe that free trade with Mexico and Canada and, indeed, this entire hemisphere is the best thing that can happen to America. I can point to you history of the Smoot-Hawley Tariff Act that most historians will tell you was a direct contributor to the exacerbation of relations with Japan which brought on World War II.

The fact is that Adam Smith, in "Wealth of Nations," pointed out graphically, as have most economists that I know, that free trade is a way to obtain prosperity for all nations involved, and the opposite happens when free trade is abandoned.

I believe that a free trade agreement with Mexico will be of tremendous benefit to our Nation. Already the policies of President Salinas have been of enormous benefit to my State. We have created an additional 20,000 jobs in the State of Arizona as a result of

the policies enacted by the Salinas government. Our entire trade with Mexico is now up to $40 billion and created 400,000 new jobs for Americans. We now have a $5.4 billion trade surplus with Mexico. Mexico purchases 70 percent of its imports from the United States and is our fastest growing export market.

I am sympathetic to individual cases of employees being displaced due to plant movement and increased foreign competition. I will support whatever legislation is necessary to ensure that they receive the kind of consideration that they deserve as a result of job relocation, just as I will continue to support legislation for our displaced defense workers who, by the hundreds of thousands, are now losing their jobs because of the necessary cuts in our defense spending as we adjust to a new world, post-cold war era and cuts in defense spending.

The fact is that the North American Free Trade Agreement will eliminate Mexican tariffs that are generally more than twice as high as tariffs in the U.S., and it will remove other trade barriers such as import licenses. In order to quality for duty-free status under NAFTA, goods will generally have to be either grown in North America or produced largely from North American parts.

I think it is also important to comment on the impact of NAFTA on wages in the United States. The Commerce Department has stated that jobs related to trade with Mexico pay significantly better than the average U.S. job. The International Trade Commission report predicts that NAFTA will result in a slight increase in overall U.S. wages, not a decline.

I remain concerned about unfair competition resulting from foreign governments that heavily subsidize their industries and from the Nations across the globe that refuse to let American goods into their markets. To address these problems, we must strive to negotiate a reduction of protectionism and enforce existing U.S. trade laws. We should not take a step backwards and allow the perpetuation of mutually counterproductive trade barriers and restrictive tariffs with Mexico.

NAFTA also includes snap-back provisions which will allow the reimposition of market protections if imports from Mexico threaten significant damage to certain U.S. imports. I would also add that there are significant efforts being made on both sides of the border to address environmental problems. Those that criticize Mexican environmental problems, I would remind you that historically poor nations do not address environmental issues; rich nations do. And the Government of Mexico, as a percent of their GNP, are spending more money on environmental issues and environmental problems than the United States of America is.

Finally, Mr. Chairman, I think that balance has always been a trademark of your conduct of hearings and your addressing of the issues. I would hope that at some time possibly we could have a hearing where those who are in favor of the North American Free Trade Agreement, those who work for companies and corporations that have increased, such as in my State, have seen an increase in benefits to themselves and their employees so that we can get additional views.

I want to again state that my sympathy for those who have been displaced because of the North American Free Trade Agreement is

profound. My sympathy for those defense workers who are losing their jobs, high-paying jobs, is profound. My sympathy for those workers whose companies have gone to Taiwan and Korea and Malaysia and other parts of the world is also profound.

Our job is to do what we can to assist these workers in obtaining the kind of training necessary and the kind of job opportunities that we want for all of them. But the overall broad view picture, in my view, in my conviction, after years of study, is that a North American Free Trade Agreement—indeed, a hemispheric free trade agreement—is in the best interest of all Americans and for the future of this Nation.

I thank you, Mr. Chairman.

Senator LEVIN. Thank you, Senator McCain.

We are going to start with our first witness this morning. Tom Fairfax is the former owner of a successful shelter operation, a company that assisted American companies in opening plants in Mexico. A shelter operation can handle all aspects of a U.S. company's Mexican operation and can sanitize the process by providing the factory hiring, the firing, managing the work force, recommending the rate of pay, and dealing with Mexican regulations.

I am particularly pleased that Mr. Fairfax is testifying today because he will be able to provide this Subcommittee with invaluable insight as to why companies move to Mexico, and he can provide us with his prediction of the impact of NAFTA on plant movement to Mexico.

Mr. Fairfax, we want to welcome you and thank you for coming a long distance to be with us this morning. Your entire testimony will be made part of the record, and we would appreciate your just telling us the highlights.

TESTIMONY OF TOM FAIRFAX,[1] FORMER BROKER AND "SHELTER OPERATOR," RANCHO SANTA MARGARITA, CA

Mr. FAIRFAX. Thank you, Mr. Chairman, for this opportunity to bring my experience to bear on this important issue. It is both a pleasure and an honor to be before this Committee today.

It is important that we have a clear understanding of what the maquiladora program really is, or, more appropriately, we should discuss what it is not. It is not a joint U.S.-Mexico program. It was developed by the Mexican Government in 1965 and bears the formal title of "Border Industrialization Program."

The intent of this program was to entice Mexican citizens away from the concentrated urban areas, such as Mexico City, and industrialize the border regions. I do not believe that it was a premeditated effort on the part of Mexico to steal jobs away from U.S. workers.

The thinking in 1965 was that since the U.S. was experiencing dramatic growth, Mexico could be utilized as a place for expansion, not displacement. In the mid-1980's, when the maquiladora program experienced its most dramatic growth, it was simply a case of being in the right place at the right time.

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[1] The prepared statement of Mr. Fairfax appears on page 98.

It is not a place where defenseless workers are taken advantage of by subjecting them to inhumane working conditions. Labor laws in Mexico are far more protective than in the United States, and their mandated fringe benefits probably rank as one of the highest in the world. However, lax enforcement does allow for some abuse.

Mexican-owned companies do take a lot of leeway and actually are allowed certain flexibilities. Foreign-owned companies do not share in this relaxed enforcement atmosphere. U.S. companies operating in Mexico have their feet held to the fire and are expected to follow established laws to the "T." There are some loopholes, but they are not excessive.

A popular part of the maquiladora is the shelter plan. In the original meaning, it meant to operate in Mexico under the shelter of an established corporate umbrella, usually a Mexican-owned company. However, since a maquiladora can be 100 percent foreign-owned, there has been a flood of American business people getting involved as middlemen and brokers, soliciting U.S. companies at a feverish pace to move their operations south of the border.

Shelter operators typically charge their clients by the hour. This single rate will include all the payroll expenses and indirect costs such as rent. For a factory of 100 workers making a low-technology product, a charge rate of $5 an hour would pay for all the expenses of Mexico and leave a substantial profit for the shelter operator.

Shelter plan operators usually handle everything south of the border, protecting the client from getting involved in a sea of red tape required to operate there. In some cases, the shelter operators even have their own transportation fleets, picking up and delivering products at the client's dock in the U.S.

There are many more U.S. companies involved in Mexico than the official records will ever indicate because the shelter operators will sometimes act as the importer of record for U.S. Customs purposes. By doing so, the U.S. client is not listed anywhere on any documentation, and thus enjoys an almost transparent existence there.

One of the things that became clearly evident in the first year of our company's existence was that you cannot talk anyone into moving to Mexico who is not already predisposed to do so, or at least predisposed to do something. The risks are simply too great. They must feel some significant pressure to improve their profitability or to avoid regulatory pressure that they feel will eat away at an already anemic profit and have basically already settled on reducing the costs of their direct labor content as a method of regaining their competitive position.

These are the prospective clients for the maquiladora and the shelter plan operators. These companies will usually have low- to medium-technology products that are labor intensive to build. Learning curves will be short so that the startup in Mexico will be relatively quick and the effects of excessive turnover will be minimized. The product will have little, if any, duties and is easy to transport. They may be small companies or divisions of the Fortune 500.

The maquiladora program has many attractive features: low labor rates, 48-hour work weeks, close proximity to the U.S., in

some cases relaxed environmental laws. But these things alone did not make the program so attractive as to cause a company to move there. Once a company has already decided to move its manufacturing outside the U.S., these attractive features only help them to settle on Mexico.

Companies do not move to Mexico because they want to. They move there because they feel they have to. Increased global competition is the biggest part of the problem. We sold the rest of the world 747's, high-speed/high-capacity computers, sophisticated communication equipment, and even sold the seminars on how to use all of this in a manner to increase productivity. And now these foreign companies are using this equipment and information to effectively compete against us. We have become a victim of our own technology.

Legislation that is perceived to add to a company's cost of manufacturing is another problem. Corporate America is not democratic by any stretch of the imagination. When the CEO takes offense to being told that he has to do something like give advance notice before laying off a large group of people, he simply calls a meeting of his managers and says, "I want you to investigate alternatives." When they come back, he asks them for their thoughts, then slams the gavel to the table and says, "Thank you for your input. Now here is what we are going to do. Load up the wagons, we are heading south."

It can be that simple. He really doesn't ask for a vote, and certainly never asks the direct labor workers what they thought. I believe that in recent years we have passed certain legislation that was popular with the workers, but we forgot that it only takes one CEO to make the decision to move out of the country.

Mismanagement is a key factor. On several occasions, I moved companies to Mexico that were convinced that they had to do it to stay competitive. In reviewing their manufacturing operations in preparation for the move, I was not convinced that it was necessary at all. There were times when I could have suggested ways of improving their existing operations right where they were at and increased profitability to an extent as to maybe not require the move at all. But since my job was to get them into Mexico, I said nothing. And given the intense competitiveness of the shelter plan business, I am sure that every other operator would, and will, do the same thing.

In the majority of companies that we moved south, I felt that they had not exhausted all the avenues available to them to increase their competitiveness at home before deciding on the move to Mexico. The success of the maquiladora can be viewed as a measurement of our own failures. To truly understand the impact of what has transpired here, we should separate all the jobs that have left this country into one of two categories: Those that we legitimately lost to competition and those that we gave away out of ignorance.

Even without NAFTA, the maquiladora will grow in size, unfortunately at the expense of workers in the U.S. But we are headed towards a leveling out of the interest there and should see the amount of jobs headed to Mexico fall well below the level of new job growth in this country, especially as the labor rates there in-

crease through natural competition for the available skilled labor, and an already overtaxed infrastructure simply cannot absorb any more.

This would provide some relief and hopefully allow our recovery to go forward at a sustained pace, even if it is a little slow. Some companies have a legitimate reason for moving their manufacturing operations to other countries. We should not try to interfere with them. If we do and successfully talk them out of it, they risk total failure, which will cause the elimination of all jobs in the company, not just the manufacturing ones. Yet we need to make sure that those who are thinking about moving have exhausted all other avenues and have selected this drastic action as a last resort.

But I do not think that this degree of level-headed thinking will prevail because the press in America has created a veritable feeding frenzy on NAFTA. Companies have read and heard about the soon to be unrestricted access to cheap labor south of the border and are lining up for what could best be described as a repeat of the California gold rush. So many companies are talking about their intent to get a piece of this action that other companies feel that the only way they will remain competitive is to have a presence there as well. Hence, a snowball effect. One can almost hear a universal slogan being thrown around in the board rooms: We will not be the last one in our industry to have a presence in Mexico.

Mr. Chairman, given the current state of our economy and the fragile nature of our recovery, I believe that we do not need and absolutely cannot afford this kind of additional disruption in our economy at this time.

Senator LEVIN. Thank you very much, Mr. Fairfax.

How easy is it for a company like yours to set up a company in Mexico and to move their operations to Mexico? Can you just describe that process for us?

Mr. FAIRFAX. Our company was started by four individuals, each of whom put $2,000 capital in, and within 4 years we had over 350 employees and over $4 million a year in sales.

Senator LEVIN. How many plants did your company help open in Mexico?

Mr. FAIRFAX. Six factories in Mexicali and one in Tecate. However, we had many other clients, who we called our subcontract clients, that did small amounts of work in Mexico in one of our factories that was designed solely for that purpose. We had an additional 20 to 25 clients in that plant alone.

Senator LEVIN. Where does the word "shelter operator" come from? What is being sheltered from whom?

Mr. FAIRFAX. Well, "shelter" is a term that has changed meanings as time has gone by. Originally, it was simply to work under the shelter of an existing corporation, an existing Mexican corporation. The terminologies have now changed. "Shelter" more prevalently means in this day and age that you are going to pay for your products by the hour. Shelter plans can be Mexican-owned companies that are operating a plant specifically for a client in the U.S. In some cases, they are what we call captive shelters, where absolutely the only thing that plant does is for one client. The corporation was started and the permits were pulled specifically for that purpose and nothing else.

Senator LEVIN. Once you got an operation going in Mexico, did the supplies for that operation frequently still come from the United States?

Mr. FAIRFAX. Oh, yes; they always come from the United States. And one of the problems with Mexico is that they do have a very poor infrastructure of supplying materials themselves. So I can categorically say that in excess of 99 percent of the time, the materials always came from the United States.

Senator LEVIN. And do you know if those supplies going to the maquiladora area are counted as exports from the United States?

Mr. FAIRFAX. I don't know for a fact, but with my understanding of how Customs does their accounting and their paperwork, that would not surprise me at all.

Senator LEVIN. Can you give us an estimate as to how many plants have relocated in Mexico with the help of your type of company? Do you have any estimate of that?

Mr. FAIRFAX. Well, that would be difficult to say. I don't have the exact numbers. But I can tell you that a majority of the plants that utilize the assistance of someone like a shelter operator to execute the move—and they can utilize that assistance in many different ways—sometimes they just act as consultants, and sometimes they actually set the whole company up and operate it.

Senator LEVIN. Now, in the latter case when they set the company up and operate it, my understanding from your testimony is that you could literally in many cases actually rent the facility or even build the facility, handle all the labor, pay the labor; is that correct?

Mr. FAIRFAX. Yes. We were really considered to be their plant managers in Mexico.

Senator LEVIN. And then you would be given the check for everything, including labor, rent, and everything else, by the American company.

Mr. FAIRFAX. Yes.

Senator LEVIN. So the American company could just write out one check a week or a month or whatever.

Mr. FAIRFAX. Exactly. That was the plan. Our intent was to make it very easy for them to the extent of where their activities in Mexico were reduced to a minimum and that the accounting was as simple as possible.

Senator LEVIN. To what extent do shelter operators such as yourself facilitate the movement of plants? Would you say this is a significant simplification for American companies?

Mr. FAIRFAX. Well, it can be very, very simple; yes, indeed. But I need to go back and re-emphasize the point that I made before. I would never talk anybody into moving to Mexico. That is literally impossible. You cannot do it.

What we did was we came across people who were feeling the need to do something. In a lot of cases, they had not made up their mind yet whether they were going to go to the Orient or go to Mexico. But they had decided that they were, in fact, going to do something. These were the people that were our clients.

We tried. I tried very hard in the first year of our company. We spent an enormous amount of money on advertising, doing what we call cold calling, and that resulted in absolutely zero. We never

talked anybody into going to Mexico that had not already thought of it.

Senator LEVIN. The thought came to them before you came along?

Mr. FAIRFAX. Yes. And then you have to ask yourself, How did they get the thought? Well, primarily from the media.

Senator LEVIN. From the media?

Mr. FAIRFAX. From the media.

Senator LEVIN. And would you say the major reason that people are looking for a move has to do with labor costs?

Mr. FAIRFAX. No.

Senator LEVIN. What is the major reason?

Mr. FAIRFAX. The major reason that people move or anticipate a move is competitiveness. They are losing their margins where they currently are. They are possibly facing extinction if they don't do something.

Senator LEVIN. Are they not mainly looking for cheaper labor?

Mr. FAIRFAX. Well, once they have their mind made up that they have to do something and then they start looking around for where they are going to go, obviously labor becomes a very important part of the formula.

Senator LEVIN. Is that labor costs?

Mr. FAIRFAX. The labor costs, yes.

Senator LEVIN. You indicated that you think that there is going to be a snowball effect in terms of the movement of plants under a NAFTA agreement. Could you tell us why you think there will be an increase in plant movement under NAFTA?

Mr. FAIRFAX. Well, throughout our history, the most successful times for us centered around large media events, so to speak. When California raised their minimum wage, our phones started to ring off the hook. When the Federal Government raised the minimum wage, our phones started to ring off the hook. When they started talking about the layoff laws and things of that nature—every time one of these came into view in the media, we got an enormous amount of quotation activity.

We spent maybe $300 a year on advertising. We didn't have to. People came to us.

Senator LEVIN. What does that have to do with NAFTA?

Mr. FAIRFAX. Well, I think that because of all the attention that NAFTA is getting right now, people are literally lining up. Every company that I have talked to on an informal basis, because I am no longer in the business, they want to know what my impression is because they are thinking about setting something up down there or they have already dispatched people to evaluate Mexico.

I am not even in the business anymore, and I still get phone calls from people wanting to know about Mexico.

Senator LEVIN. If a majority of companies moved under the shelter approach that you have described, would that mean that a majority of companies that move to Mexico couldn't even be identified as American companies? In other words, how can they be identified if you are the shelter? Or can they be?

Mr. FAIRFAX. Well, the only way they can is if they happen to be the importer of record and their company's name shows up on the paperwork.

Senator LEVIN. But if they are not the importer of record?

Mr. FAIRFAX. You would never know. And there are a lot of them down there. That is why I say——

Senator LEVIN. A lot of them what?

Mr. FAIRFAX. There are a lot of them down there.

Senator LEVIN. Who are not the importer of record?

Mr. FAIRFAX. Not the importer of record. The shelter operators are acting as the importer of record.

Senator LEVIN. So in terms of recordkeeping, trying to figure out how many American companies have moved to Mexico to give us a data base in case NAFTA is approved, we could not tell by looking at just the importer's name as to whether or not that was an American company or whether that was the shelter operator; is that right?

Mr. FAIRFAX. Well, understanding the intricacies of that business like I do, I could never figure it out. I don't see how it would be possible for you to.

Senator LEVIN. To figure out whether the company that you were the broker for or the shelter operator for was an American company or——

Mr. FAIRFAX. The only way you would know would be to follow the trucks and see where they go.

Senator LEVIN. Well, I think my 10 minutes is up. Senator McCain.

Senator MCCAIN. Thank you, Mr. Chairman, and I appreciate your courtesy. I think we have a vote at quarter of.

Senator LEVIN. What we will do, Senator McCain, if this is all right, after your questioning we will recess for 10 minutes, we will run over and vote, and come back.

Senator MCCAIN. Thank you, Mr. Chairman. I may not be able to come back. As you know, Secretary Aspin and Chairman Powell are testifying before the Senate Armed Services Committee.

Senator LEVIN. Could I give you a few questions to ask them?

Senator MCCAIN. Yes. Would you, please?

Thank you, Mr. Fairfax. You have provided us some very excellent insight into the process that has been going on for some years now. How many years were you involved in this particular endeavor?

Mr. FAIRFAX. About 5 years.

Senator MCCAIN. About 5 years? Encompassing what time span?

Mr. FAIRFAX. From 1985 to 1990.

Senator MCCAIN. I see. And you mentioned that publicity surrounding certain actions would increase your business. You mentioned that when the minimum wage went up, that increased your business. What other actions?

Mr. FAIRFAX. The layoff law that said that you had to give advance notice before laying off a certain percentage of the work force created a lot of activity. Even the Disabilities Act, even though this was outside of the time frame of when I was in the business, my understanding is that a lot of people were getting inquiries because of that.

Senator MCCAIN. When these companies came to you, were they contemplating moving or were they moving and looking for a place to go to?

Mr. FAIRFAX. Most of the time they had already made up their mind to move, and they were simply looking for a place where they were going to settle.

Senator McCAIN. And if Mexico had not been attractive to them because of, say, the policies of the Mexican Government for the previous 20 or 30 years, they would have gone to Taiwan or Korea or Malaysia?

Mr. FAIRFAX. More than likely. That was usually the second choice.

Senator McCAIN. And as you know, Mr. Fairfax—I don't expect you to be an expert on this—when companies go to Korea or Malaysia or Taiwan, the parts are supplied by other countries, not by U.S. companies.

Mr. FAIRFAX. Exactly. That was one of the selling points that we had for not displacing any more workers than you absolutely had to. Products that are made in the Far East are usually what we call "turnkey." In other words, the company no longer purchases the parts, supplies them to the operator who assembles them. They simply buy a product finished, which means that a lot of the support jobs in the area of purchasing and material support are lost as well as the direct labor manufacturing.

In Mexico, on some occasions, in the indirect side we actually saw an increase of people who were hired by the U.S. company just to support the Mexico operations. Obviously it was not a one-to-one correlation with the direct labor force, but in some cases they did have a small gain there.

Senator McCAIN. And these companies that came to you, it was not out of a lack of patriotism. It was not because they wished to leave the United States. They felt, I think, as you testified earlier, that they just simply couldn't compete. Is that accurate?

Mr. FAIRFAX. Well, yes. Anytime we would get a new company, as part of our negotiating strategy, it would be that the first thing we would identify is what their motivation truly is, because that depends how we are going to put forth our package that we try to sell them.

I can only think of two occasions where a company went down there strictly to increase their profit, and these are usually small, privately owned companies who just happen to have very aggressive owners. You would never, ever find a Fortune 500 company or even a publicly owned company who would consider Mexico just to increase their profit. I would categorically say that would be an impossibility.

Senator McCAIN. And so you made a number of visits down there as part of your work to the areas where these companies were being located? Or did you stay mostly in—did you visit these facilities once they had moved?

Mr. FAIRFAX. Oh, yes. I visited an enormous amount of facilities in Mexico. I spent at least 50 percent of my time from 1985 to 1990 in Mexico.

Senator McCAIN. And did you notice the buying habits of the workers at the maquiladoras along the border? It has been our experience in Arizona that the majority of the spending that they do, because of the inferior quality of Mexican-produced products, they

go across the border to the United States to do their purchasing. Did you notice that trait?

Mr. FAIRFAX. Yes, and I can give you a very clear example of that. The city of Calexico in southern California rests right on the border with Mexicali. Mexicali has a population of approximately 1 million. Calexico has a population of about 20,000. I kind of jokingly tell people that Calexico's sole purpose in life is to support Mexicali.

When the drug agent Camarena was killed and the borders were, in essence, closed for extended periods of time, the city of Calexico almost went bankrupt because of the lack of Mexicans that were available to come and purchase things. And every businessman in Calexico went to the local Customs head and pleaded with him to please relax the restrictions or they would go bankrupt.

Mexicans do buy a lot of products in the United States. Whether it is proportional, I am not really sure. I don't know that the whole premise of NAFTA, of them buying our products, makes a lot of sense. But they do buy a lot at the border.

Senator MCCAIN. But the figures of our exports to Mexico is somewhat impressive. In the last year, I think you would agree, there is a $5.4 billion surplus and——

Mr. FAIRFAX. Yes, but Senator Levin hit on a very important part; that is, there could be some pseudo accounting taking place where products that are destined only to be assembled and come back may be counted as part of that figure, and also the machinery that is sent down to facilitate that assembly.

Senator MCCAIN. I understand that, but also not counted in that, probably, because I don't know how you count it, is the amount of money that is spent on our side of the border by the Mexican wage earners.

Mr. FAIRFAX. Yes. That would be hard for me to determine. I can tell you that at the border they seem to spend a lot. Whether they will spend a lot of money throughout the United States is another question.

Senator MCCAIN. Well, as you know, the products that they buy are not manufactured on the border. They are sold there.

Well, I just appreciate your testimony this morning. I think that we have to take into consideration all the factors involved in why these companies move and what we can do as Americans to keep them in the United States and what measures we need to take. And I think you have given us some very valuable insight.

I thank you, Mr. Chairman.

Senator LEVIN. Thank you, Senator McCain.

We have a vote now, and we will ask you, Mr. Fairfax, if you don't mind, to bear with us while we run and vote. We will be back in about 10 minutes.

[Recess.]

Senator LEVIN. The Committee will come back to order, and we thank you all for your understanding.

Mr. Fairfax, you have said that companies moved to Mexico to remain competitive or to become competitive. When you broke out the percentages that go into that decision, that influence that decision, with the Committee staff, this is the way you described it, and I want to know whether or not I have it accurately.

What are the reasons influencing plants to move to Mexico? Fifty percent of the reason you said was wages; 20 percent EPA guidelines. Those are the two biggest percentages. Is that accurate? Does that accurately reflect what you believe?

Mr. FAIRFAX. Yes. Going back to the point that the only reason that they look for wages is because they feel pressure in the first place. Once they start looking, yes, that was——

Senator LEVIN. And the pressure that they feel is either to become competitive or to remain competitive; is that right?

Mr. FAIRFAX. Yes. In most cases, they have finally woken up and realized that they are not competitive anymore and that they have to do something.

Senator LEVIN. And that if they are going to either remain profitable or become profitable, they have got to, in your words, either go to a place with lower wages or that doesn't have the regulatory guidelines that we have here?

Mr. FAIRFAX. Yes. In some cases, that is—in a lot of cases, that is the truth.

Senator LEVIN. All right. So that it does relate to profitability in the sense that they want to remain profitable or become profitable.

Mr. FAIRFAX. Yes, absolutely.

Senator LEVIN. The other reasons that you mentioned, smaller reasons or fewer reasons for doing that, are union busting and ego.

Mr. FAIRFAX. Yes.

Senator LEVIN. Is that right?

Mr. FAIRFAX. Yes.

Senator LEVIN. What did you mean by ego?

Mr. FAIRFAX. Well, that is what we refer to as the ego trip, and it usually was a small company, privately owned, a very aggressive owner who literally just wanted to brag about his international operations. And, you know, in reviewing the type of work that they were doing and their level of profitability in the U.S. versus what they were going to do in Mexico, that was the only thing I could come up with. They just wanted to brag about their international operations.

In some cases, the way that they structured their Mexico operations, it ended up costing them the same as they would have paid in the United States anyway.

Senator LEVIN. I want to go through the mechanics with you in just a bit more detail of using a shelter operator to get the full idea as to how this works.

Let's say I am an American company interested in moving to Mexico, and I want as little to do with the move as possible. I call up a shelter operator, like your old company or other companies that are in the business.

Now, I tell the shelter operator, as I understand it, what I need. I need, say, 10,000 square feet of space. I need 250 employees. I need a certain percentage of those employees with a certain skill level, and I need it within, say, 6 months.

Can a shelter operator meet that request?

Mr. FAIRFAX. Sure. I have on many occasions. When we leave that meeting, I walk out and start a project plan with some of the people on my staff, most of whom, by the way, are Mexicans themselves. We start a site search. We start looking at the type of indus-

try that we are going to be handling and where we feel that the best labor force will be to handle that.

We would go out and secure three possible sites, come back and make a presentation as to what we thought where the plant should be. We would also evaluate existing plants in the area to see if any of them fit the bill. If they didn't, we would recommend a design for a plant. And based on whatever they would approve, we would usually go off and negotiate the lease in Mexico on their behalf.

Senator LEVIN. Now, in other words, a shelter operator could set up an operation in as little as 60 days after I sign a contract?

Mr. FAIRFAX. In some cases, I have had people down there within 2 weeks. If they were operating under my umbrella—in other words, we were not setting up a whole major program for them. Say it was only 10 to 15 people worth of work, I could literally have them down there in 2 weeks.

Senator LEVIN. And if it were larger, you could still do it in 60 days?

Mr. FAIRFAX. Sixty days to 6 months. If brand new facilities are required and the massive amount of leasehold improvements that usually accompany that, then it can take 4 to 6 months.

Senator LEVIN. So that you could hire all the employees, and in that case would the American company even know who those people are?

Mr. FAIRFAX. Usually we would take the top management positions that were going to be in Mexico, and we would have them interviewed, most of the time in the United States by the client, seeking their approval. Below the management level, they had no idea who they were.

Senator LEVIN. They don't even know who the people are.

Mr. FAIRFAX. No.

Senator LEVIN. Would the America company know their actual wages?

Mr. FAIRFAX. They had a rough idea, but they didn't know exactly because we considered that, as long as we were operating under a shelter plan, as company proprietary information.

Senator LEVIN. As your proprietary information?

Mr. FAIRFAX. Yes.

Senator LEVIN. So that you would pay the wages and the American company would just pay you a lump sum?

Mr. FAIRFAX. Correct.

Senator LEVIN. And the American company, then, would not even know what the actual wages are?

Mr. FAIRFAX. Most of the time not. If it was under our program of what we called the incubator, where we were contractually bound to turn the company over to them in, say, 2 to 3 years, then yes, they were aware of everything because we were obviously setting the stage for their budgets that they were going to inherit. So they did know ultimately.

Senator LEVIN. In those cases?

Mr. FAIRFAX. Yes.

Senator LEVIN. But most of the time they would not know the actual wages because most of them were not the incubator type?

Mr. FAIRFAX. Correct. In a lot of cases, they didn't really care.

Senator LEVIN. And they would not in most cases know what the benefits would be for those employees?

Mr. FAIRFAX. The shelter operators pretty much knew what the benefits were because——

Senator LEVIN. No, I don't mean the shelter operators. I mean the American companies.

Mr. FAIRFAX. The companies operating under a shelter knew what the benefits were because we had explained that to them in very detailed lengths as part of the negotiating of justifying the rate that we were going to charge them.

Senator LEVIN. All right. They knew what the law required the benefits to be?

Mr. FAIRFAX. Yes.

Senator LEVIN. But that would be by Mexican law?

Mr. FAIRFAX. Yes.

Senator LEVIN. Would they know the hours, the actual hours of the employees in the situation that we are talking about?

Mr. FAIRFAX. Yes, because the trigger of how we got paid was a flat rate based on what the direct laborers worked. So we would actually have to submit time cards.

Senator LEVIN. Well, then, couldn't they figure out the actual wages?

Mr. FAIRFAX. No, not with just those two pieces of information they couldn't.

Senator LEVIN. If they knew what the benefits were, knew the number of hours, couldn't they just figure out wages?

Mr. FAIRFAX. Well, no, because there were a lot of other things buried in it, mostly fixed overhead, some variable overhead.

Senator LEVIN. And they wouldn't know what that is.

Mr. FAIRFAX. Exactly. All that was buried in that one lump-sum rate. So it would have been fairly difficult for them to understand.

However, these companies all knew what the going rate was. They knew what the laborers were more than likely getting.

Senator LEVIN. But a shelter operator, if he could do somewhat better than the going rate, they wouldn't know that?

Mr. FAIRFAX. Correct.

Senator LEVIN. And would they know the names of the employees?

Mr. FAIRFAX. If we were submitting time cards for their approval, yes. But other than that—unless they had a chance to interface with them, say with a Mexican production planner that they were in regular contact with—that would be the only reason that they would know their names.

Senator LEVIN. So that at least it is not uncommon that an American company would hire a shelter operator and would not know the names of the people that are working for them down in Mexico?

Mr. FAIRFAX. I would say in a majority of cases they did not know all the names of the people that were working for them. First of all, it would be impossible. The turnover rate is so high. It is like a revolving door, running people in and out of there. So it would be very difficult for them to keep tabs on it.

As the shelter operator, I usually did not know the names of all the people in the factories.

Senator LEVIN. All right. And I think the literature that we have seen from some shelter operators, not necessarily the one that you were connected with, says that the American management can even live in the United States and not move to Mexico. Is that true?

Mr. FAIRFAX. Yes. On the border regions, we would recommend that they live in the U.S. But actually, what we really wanted is we wanted them to stay out of Mexico all together.

Senator LEVIN. To stay out of Mexico?

Mr. FAIRFAX. Yes.

Senator LEVIN. These are the managers of the plant?

Mr. FAIRFAX. Yes, because they are very culturally insensitive, and they usually cause a lot of problems when they are there. So the ideal situation for us would be for them to let us run the factory in total, just tell us what you want, how many you want, when you want them, and we will see to it. You know, come down and visit once in a while. We will take you to lunch. But other than that, you know, try to stay away.

Senator LEVIN. These are called plant managers?

Mr. FAIRFAX. Yes. The plant managers, the production managers.

Some of them took a very active role. Some of them lived in the United States, worked in Mexico, if you were talking about a border plant. Some of them immersed themselves in the culture and insisted on living in Mexico itself.

Senator LEVIN. But many of them did not?

Mr. FAIRFAX. Many of them did not. Most people considered it a harsh tour of duty.

Senator LEVIN. As a what?

Mr. FAIRFAX. As a harsh tour of duty.

Senator LEVIN. Thank you very much, Mr. Fairfax.

Senator Akaka.

Senator AKAKA. Thank you, Mr. Chairman.

At this point I don't have any questions, Mr. Chairman, but I will certainly review the testimony.

Senator LEVIN. Thank you.

Senator AKAKA. If I can, I would like to make a statement.

Senator LEVIN. Oh, yes. Please. Whatever questions or statement, please, it is your floor.

OPENING STATEMENT OF SENATOR AKAKA

Thank you very much, Mr. Chairman.

I should tell you that in just briefly reading Mr. Fairfax's testimony, I can see more clearly the difficulties that we have in the United States with this program. I really was not aware that the Mexicans on their side would have an industry where they took the raw goods and finished it and had to send it out of the country and not into the Mexican market, which means back to the United States or somewhere else. And the other is that monies that come in, foreign monies such as dollars, would be exchanged into pesos and the workers would be paid in pesos. So I can see where this can really hurt our industries, and plus I think our consumers would be delighted with the kind of prices they may get for those goods.

But I want to compliment you from what I have read thus far in your testimony—you certainly made it clear as to the problems we are facing with respect to the maquiladoras operations. And I was also surprised to note from your testimony that there is an explosion of industries along the border doing this kind of work. So I want to commend you for your testimony.

Mr. Chairman, I would like to make a brief statement.

Senator LEVIN. Sure.

Senator AKAKA. NAFTA offers many unknowns for American industry, agriculture, and workers they employ. There are legitimate concerns over Mexico's health, safety, and environmental standards, but the impact of the trade agreement on American workers is the issue that concerns us most. The wage rate differential between the United States and Mexico is not measured in dollars, but in orders of magnitude. Simple economics dictates that NAFTA will encourage a move for U.S. firms to Mexico for lower wages. And, Mr. Fairfax, you point that out in your testimony.

In Michigan, Mr. Chairman, this could mean loss of employment for older workers. In Ohio, it may mean that an assembly line for an appliance manufacturer will be shut down.

NAFTA is a jobs issue in Hawaii as well. Our sugar workers have experienced hardship in recent years, but NAFTA would mean additional losses.

As currently drafted, NAFTA would spell disaster for sugar because it would permit wholesale import substitution of sugar. Unless import substitution is outlawed, Mexican sugar will flood our markets, drive down prices, and force U.S. producers out of business.

Let me just quickly point out what I mean by this. Presently Mexico produces 3.5 million tons of sugar annually, and this is insufficient for the amount of sugar in the whole of Mexico. So what can happen here is that Mexico can import all the sugar it needs to meet its demands in Mexico and use it in Mexico, but the sugar that they produce, 3.5 million and more, they may ship to the United States. This is what we call import substitution, and this is what we think will happen. And if it happens—and we think it will happen—it will hurt our sugar industry.

So import substitution is nothing other than a pass-through transaction. It creates no new jobs, no benefits for Mexican workers, and no real contribution to Mexico's economic development.

Mexican growers cannot fully supply their own market, as I pointed out, so the benefits of NAFTA would only flow to a few Mexican mill owners and traders who would reap huge profits at the expense of workers on both sides of the border.

Mr. Chairman, thank you for calling this hearing, and I hope we can continue to work together to examine these legitimate concerns about NAFTA.

Again, thank you, Mr. Fairfax, for your testimony.

Mr. FAIRFAX. You are welcome.

Senator LEVIN. Thank you, Senator Akaka.

When you review the transcript of Mr. Fairfax's testimony, what you are going to see is some very compelling expert testimony about NAFTA creating a great additional loss of jobs in America for the reasons which Mr. Fairfax gave us. He is an expert whose

expertise is based on his own personal experience, as you know from reading his testimony, as a shelter operator. And what is striking about it is his personal knowledge of how that operation functions, how there is almost a total disconnect between the company here and its plant—frequently there is a disconnect—and a plant down in Mexico, where the management here, for instance, could stay in the United States, know nothing about the operations, pay one check a month, not know the names even of the workers.

Also, I think what is striking about Mr. Fairfax is that he has a genuine respect for Mexico, and his feelings about the negative impact of NAFTA on American jobs does not come from any negative feelings about Mexico. Quite the opposite. We know from talking to Mr. Fairfax and it came through in his testimony in a number of places that there is a genuine affection for Mexico that Mr. Fairfax has. I think that is important so that people do not see this as something which is—"this" being the analysis of the impact of NAFTA, for instance—something which is anti-Mexican. It is not. The question is: What is the impact on America? That is what we have to look at, and it was very valuable to have Mr. Fairfax here. I appreciate your coming as well, Senator Akaka.

Thank you for your testimony, Mr. Fairfax.

Mr. FAIRFAX. If I might add one thing, Senator, I wish Senator McCain could have been back. He talked about balance. I think I have a very balanced attitude on this. I am very much in favor of a free trade agreement. I want Mexico to be strong. I don't want to have to go down and defend their southern borders some time in the future. I want them to be able to do it themselves.

I think it is right, the concept of a free trade agreement. There are two things that I have problems with on NAFTA. One of them is that there appears to be a lot of technical deficiencies in it. It obviously has been negotiated very lopsidedly in favor of the Mexicans. I do have a large affection for them, but these people are premier negotiators, and it appears like they got us—this time.

The second part of it is the timing. If NAFTA is good now, it should be good 4 years from now. Why would we take any risk with the fragile state of our recovery, of implementing something that has some effects that may not be known?

You stated yourself that a lot of the data in the past we simply can't get our hands on. We don't know what is going to happen. We can only speculate on the positive aspects of NAFTA. The negative side is very predictable, though. More jobs are going to go.

One of the reasons that people do not go to Mexico is because of the current duty rates being too high for them. If you take those away, you will automatically increase the amount of people that will find Mexico attractive. Add the media hype, and you have got a whole bunch more.

Senator LEVIN. A whole bunch of what?

Mr. FAIRFAX. A whole bunch more.

Senator LEVIN. A whole bunch more going to Mexico?

Mr. FAIRFAX. Interested in going. And, you know, my feeling is that once they are down there, a really slick shelter operator may talk them into doing something that is not right.

Senator LEVIN. Such as?

Mr. FAIRFAX. Such as going to Mexico. They don't necessarily need to go. They get all hyped up about it, and they want to go down and see what it is all about. And once they are there, who knows what they could be talked into? It is like going and buying a time share condominium. You know, the biggest objective is to get you in front of the sales people in the first place.

I made a statement in my prepared text that Mexico could have spent $100 million on a public relations campaign about the maquiladora, and they would not have been nearly as effective as what the American press has done for them free of charge.

Senator LEVIN. Thank you. We appreciate, again, your willingness to come forward.

Our next panel is made up of Scarlet Bachmann and Jerry Lundy, former employees of Modine Heart Transfer in Dowagiac, Michigan. We also have on this panel Doug Fenton, the former personnel manager at United Technologies Automotive in Wabash, Indiana.

Thelma Wallen was not able to make it to Washington to testify, but her testimony has been submitted for the record.[1]

I think in introducing our panel here, it is interesting to note Mr. Fairfax's testimony that, in Mexico, American companies don't often even know the names of the workers. Our next panel was well known to their companies because they worked for their companies for 20 years.

We have made reference to some maps on the wall. These are just a small portion, actually, of the plants that have moved to Mexico, the ones that could be verified by the Resource Center as having directly moved. At least the Resource Center has been able to verify that so far.

Behind each one of those plants that moved to Mexico are hundreds of American workers that are left behind, and today we are going to hear from some of these workers who lost their jobs. The plants that they worked for for at least 20 years, frequently 30 years, are now on the list of plants that have moved to Mexico.

We have already heard from an expert that more jobs are going to move to Mexico under NAFTA. These witnesses are not your typical Washington-type witnesses. They are real people who are going to show us and tell us what it looks like when a job moves to Mexico. Their testimony will speak for thousands of others like them who are left in the same situation and the additional thousands who could lose their jobs under a NAFTA agreement.

I want to thank all of our witnesses for making the extra effort to come all the way to Washington to tell your stories, and I hope that we will take notice of your presence here today.

Mr. Lundy, we will call on you first.

TESTIMONY OF JERRY LUNDY,[2] DOWAGIAC, MI., FORMER EMPLOYEE OF MODINE HEAT TRANSFER

Mr. LUNDY. I would like to thank you for giving me the opportunity to appear in front of this Committee and voice my feelings and opinion on this subject.

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[1] The prepared statement of Ms. Wallen appears on page 279.
[2] The prepared statement of Mr. Lundy appears on page 119.

I was born in Dowagiac, Michigan, which is where Sundstrand/Modine was located. I had worked for the plant for 27½ years. The first 6 years of my employment was in the union, and 21½ years in management. I definitely classified myself as a devoted company employee. I believed everything that the company told me. I am very grateful for the wages and benefits given to me and my family during this period of time.

In the beginning of our move, it all started out as a rumor in 1987 that we were going to move part of our plant to a maquiladora plant in Mexico. The reasons that the company gave for this was that competition was underselling us and that we were losing some of our market share. Our profit margins were lower now than they had been in the past. Productivity was one of the reasons given for moving. In other words, our productivity was supposedly down in the Dowagiac plant.

I can say that I am an expert on productivity. I made my living for 21½ years watching people. I have been to a lot of different plants. This statement was definitely not true. I would put the productivity of our plant up against any plant in the United States. Nobody, including management, believed that this would really happen.

A few years prior to this, we were threatened that they were going to move our plant to a southern plant for economical reasons. It was never followed through. So you can understand that many programs were started, and it is rare for a company to follow through on them. So everybody, including management, really thought this was just a rumor.

But then a few months after the rumor started, it did become reality. A site was selected. Ten management and two union employees were asked to go down there. Let me clarify "asked." You either go down there, or you take your chances on going bye-bye down the road. That is really how it was put to them.

In the beginning, we were told—meaning both the company and the union—that we would roughly lose 130 jobs from the manufacturing facilities in Dowagiac. The remaining jobs would definitely stay in Dowagiac. We were assured many times by the company that the remaining jobs would stay in Dowagiac. But almost from this day on—I can honestly speak for all the employees, both union and management—you really lived in fear of losing your job every single day that you went to work. It created a tremendous weight on your head.

The roles that the employees played during this move involved almost everybody, from individuals on the floor all the way up to middle management. The employees got the opportunity to clean up the equipment and package it up for shipment to Mexico.

Employees also got to watch one-by-one as their coworkers and each piece of machinery, as it was packed up and moved out the door. I can honestly say that this is a very slow and painful death for everybody.

In the end, it was also decided to move my department, which was the research and development model shop, to a plant in Missouri, instead of Mexico. They sent up some employees, plus my replacement, and I can honestly say that my technicians and myself

trained them with all sincerity, and when we walked out the door, we walked out with our heads held high.

The day before I left for my new career in Canada, I was at home and I received a telephone call from my replacement thanking us again for being totally honest and helpful during the training period, which I really did appreciate. Because of my position, I was a supervisor in charge of research and development and handled all the samples, I interweaved with Plant 2 and Plant 3—Plant 3 being Mexico and Plant 2 Missouri—I was in contact with both plants plus all our customers on almost a daily basis.

I was also sent down to Mexico in 1989 for training their employees to set up a piece of equipment that would save the company thousands of dollars in setup time.

I do know that quality was a major, major concern of all our customers, especially from the Mexico plant. I know that the preliminary run from Mexico, there was an almost double inspection, if you will, performed by our customers, and I also know that the quality from our Mexico plant suffered to the point where we did lose a significant amount of market share from our most important customers, and this hurt the Dowagiac plant.

Because you are going to move as much as you possibly can to the cheapest plant in order to save money, so we kind of got all the overflow, if you will, the Dowagiac plant. Well, the more orders that we lost, the more market share we lost, just based on both quality of the workmanship from Mexico—it did not hurt them, it hurt the Dowagiac plant. The Dowagiac workers also got the opportunity to redo their mistakes.

What happened to me personally and my coworkers after the layoff—my mother, two of my brothers, one sister-in-law, my wife and myself all lost their jobs because of this move. My mother was forced to retire 3 years earlier than she anticipated. I now have one brother who is facing bankruptcy and will probably lose his home. I have another brother that has worked many different jobs and is presently struggling just to survive.

I would like to make it clear at this time that, for myself and my family, we are among the very, very few who are lucky. We bought a hunting and fishing camp in Ontario, Canada. This was a dream that I have had all my life. I can honestly say that we are happier now than we have ever been before, and that my termination was a blessing in disguise.

I am aware of a few others who have been successful and are happy. Unfortunately, I come back to the community and live 6 months out of the year and I interweave with literally hundreds of past employees. For every success story that I feel I have, there are 50 stories of total disaster.

My friends and coworkers are working low-paying jobs, most without any benefits at all. I was shocked that the majority of them had no insurance, major medical insurance whatsoever, and there is no way they can afford to buy it. I have seen marriages broken up, I have seen homes lost, I have seen vehicles lost.

One of the most important things that a person can lose that has nothing to do with material things is their self-esteem. I don't know how to put it into words, what that does to a person. You almost have to go through it. I come home from camp very happy.

You talk to your friends and your coworkers and everybody is down and it brings me back down. While I am happy as an individual, you know, it is a sad, sad situation, it truly is.

The day I was asked to come for an interview, which was a month or so ago, this was not set up. There was a lady who came to my house, a personal friend of my wife's who had worked there, and we had to loan her a little bit of money to keep her from losing her trailer.

The night before I came up here, a personal friend of mine was over to my house. He was in management. He has been a long-time friend of mine. I have known him for 40 years. He was actually talking of suicide. I could not believe it. He is working, his wife is working, and he was in management, you know, everything was taken away from him. Those repercussions down the road are just unreal and I really do feel sad for these people.

Everybody I talked to had the same statement. There is not one person that I have talked to who would not make this statement, and that is that "they took the best years of our lives, and as long as the profits were good, that was OK, but as soon as times got tough, we were dumped like a sack of potatoes," and that is the exact feeling of 90-some percent of the employees in that plant, the company, the whole union.

Because we were lied to about our jobs staying in Dowagiac, employees continued to live their life as if they would have a fairly good job down the road. I personally spent $15,000 on a luxury item for my family. It was an in-ground swimming pool and a deck. Maybe I didn't deserve it. I spent 6 months going to my boss, going to the head executive at Sundstrand, making sure that we were going to have a job for a while down the job before I spent this money.

I also advised my workers and my coworkers to build a new home, to buy new vehicles, and within a year's time we were laid off, terminated. I do not think that is right.

In my conclusion, I can say that I went from a devoted company employee and truly believed and trusted everything the company said to me, to the point that I do not believe I could ever trust a company again.

After Modine bought us, our pensions were drastically changed by Sundstrand to the point that we cannot even think about retiring until we are 65, and because I was on the committee to sue Sundstrand for reducing our pensions, I am concerned and do want to go on record to say that I do not want to be singled out for being here today and suffer even more reductions in my pension.

I do totally put the blame on this move of the company on the company, because they never approached the employees and gave them the opportunity to take cuts in wages and benefits before the decision was made to move the plant to Mexico. After the decision was made, they did approach the union and the company on taking cuts. But before the decision was made, they never gave the opportunity to the employees themselves to save the company.

I do believe that greed and profit margins are the only things are important to this company, and that absolutely no consideration whatsoever towards hundreds of loyal employees was given to

them. While large profits were fine, everything was fine. But when things got tough, they just dumped us.

When Modine entered the picture and they bought us in October of 1990, we received three letters. At this time, Sundstrand told us, when they sold us to Modine, it is the best interest of all employees that we sell you to Modine. The first was August 3, 1990, and said that we will run this plant basically the way it is now, with the same company people and the same union people. The second letter stated that we are looking for a long and fruitful relationship between Modine and us. This was in October of 1990. On January 17, 1991, bye-bye. There were many, many termination notices sent out, and within less than 3 months we were all terminated. So much for the honesty and loyalty of Modine.

I don't know what I can do. I am just a country boy and I don't know a whole lot about the Government, but at least from having these hearings and the expense of everything, at the very, very least, if the employees were approached honestly, open the books and give them the opportunity to save the company, then everybody's time and effort I feel would be worth it.

Thank you.

Senator LEVIN. Mr. Lundy, thank you very much.

Ms. Bachmann.

TESTIMONY OF SCARLET BACHMANN,[1] DOWAGIAC, MI., FORMER EMPLOYEE OF MODINE HEAT TRANSFER

Ms. BACHMANN. I was a factory worker at Sundstrand-Modine for over 22 years and I refer to myself as a dislocated, misplaced person. However, I can't really relate to you the depression and the frustration that a person goes through, because actually I was not aware of what I was going through. I have always been known as kind of feisty, temperamental, stubborn, so I always said, well, so what, they are moving to Mexico, I will make the best of it, take it day by day.

After I went through all my procedures and made a new life for myself, I stepped back and I looked at the picture and I could see exactly what it had done to the community, how it had affected all the people, how it had affected myself.

I feel fortunate to be here. I feel fortunate to have a job. I got in one of the State programs. I attended college for a year. I was on the dean's list. But I am not majority. Not very many people could qualify for the programs. They didn't have the schooling background. Your time frame is very limited on how long you have to enter these programs. The stipulations are very intense.

A lot of people couldn't read or write, or if they could, they didn't have the time to get their schooling caught up to qualify for programs. Some of them got into trade school that didn't get them a job. If it did get them a job, it got them either a part-time or minimum wage or both.

These programs are not what they say, you know, they try to say we have these programs, people use them, they are not going to be affected by the move. This is not true, you are all affected. The

[1] The prepared statement of Ms. Bachmann appears on page 127.

thing of it is, when you look back and you remember the people packing up the equipment, you see them watching the trucks leave for Mexico.

Depression and stress is one of our main killers in our country. It is a medical fact. It is a grieving process we have had to go through, just as though we have lost a family member. Your body, your reactions, your system, they have to go through this.

I have talked to a lot of people. I was friends with a lot of people who didn't have the resources I had. While I was in school for a year, I was on the unemployment benefits program. It was great. It helped me get through my schooling. But at the end of the year, when I had to pay my State and Federal taxes, it wiped out our savings, but yet I still felt fortunate, because I had savings. Some people didn't have that. They had to remortgage their house, they had to sell their car, or they had to make payments to the government because they didn't have the money to pay these taxes.

Well, we already had more bills than what we could drop our budget to. People say, well, you knew ahead of time. Yes, we knew ahead of time, but, as Jerry said, we didn't really think it would happen. And if you accustom your life to an income of 22 years, how quick can you drop down to half of what you have, half of the income, a quarter of the benefits?

When I hired in there, there were 1,200 people on the seniority list, factory only. I am not talking management. To date, there are approximately 75 to 80 people. We are a small community. We don't have taxicab service. We don't have subways. We don't have anything.

To absorb that many people in that kind of an area is absolutely impossible. It can't be done. And these people are dropping off the unemployment statistics, because they have run out of benefits, not because they have found a job. Where did these people show up in our census, in our statistics? Many of them are just there. They are losing everything they have, and they are having to go to children for help—I want so hard to tell their story.

One of my very best friends, she is 10 years older than I am, so I am going to be real brave and tell you folks I am 49. She is close to retirement. She is working 32 hours as a cashier at a Meijers Store, which is like a large K-Mart or whatever, and she works the gas pumps for minimum wage. She is so worried that her back is not going to hold out until she reaches her retirement age, or else they are going to turn around and raise the retirement age.

She and I had lunch at the hospital where I work now the other day, Monday of this week, and she said, "Scarlet, please try to relate to those people what is happening to us people and try to show them that they need to investigate this, they need to help us." And she is just one of many people.

Another couple that I know whose husband passed away—many of us were two people from one family depending on that place for an income. My husband and I both worked there. Another couple that I know both worked there. Their house was paid for. When you get our age, you think I want to get my house paid for, I want to try to be comfortable in my later life. They had to remortgage their house, because they both lost their jobs at the same time and

they ran into all the similar things that I ran into, but it was double the headache.

A recent article that they had in our paper came from Modine, and a little background with Modine is I was laid off in September of 1990 from Sundstrand and I was told that this was probably it for me. Then in October of 1990, Modine bought all of our plants and they promised us the sunshine and said that the people that were still on the seniority list and that were still working were going to be working.

They called me back. I was back within two weeks after they actually took over the plant and they said we are going to do things for you, we're the best thing that has happened to you in a long time. Well, in January of 1991, I was laid off again, and this time it was permanent. However, I didn't know it was permanent. These notifications that came out periodically over time were supposed to be designed to warn the people that in 60 days your job was going to be lost. But many times people would see their name on the list three, four or five times and nothing happened.

Myself, I never saw my name on the list. My job is actually still in Dowagiac. I was denied my severance pay, because management said to me, "You are not affected by the move to Mexico," even though the people doing my job had lost their jobs to Mexico. I don't resent those people, but I resent the idea that anybody is foolish enough to say, when you go from 1,200 people to 80, that I was not affected by the move to Mexico.

I kind of got off the track, but in this article, the personnel manager for Modine said: "We are alive and well and want to be recognized by the community as putting the mourning to rest." The majority of us folks, we are not dead. There are a few who have passed on in the past few years, but we are not dead.

Senator McCain, I wish he would have stayed, because I kept hearing sympathy from his mouth. Sympathy to me is something you extend to someone who has lost a loved one or in that aspect. We are badly beaten up. We have been promised a lot. It has not come through.

The Nation is a working Nation. I have always thought of the United States as a working Nation, we are working people, we have produced a lot of products over a period of years. But how can we work without jobs? And how can the Mexican people come across and buy our products, when they are making so much less than what we are, and we are not even keeping our heads above water here? I mean it just does not make sense.

I know I probably left out a lot of things and there were a lot more things in my statement, but I am a little nervous.

Senator LEVIN. You did very well. Thank you very much, Ms. Bachmann.

Mr. Fenton.

TESTIMONY OF DOUG FENTON, KOKOMO, IN., FORMER EMPLOYEE OF UNITED TECHNOLOGIES AUTOMOTIVE

Mr. FENTON. I was hired in with United Technologies Automotive in 1981, and at that time they had roughly 21 facilities.

Senator LEVIN. And where was that located, by the way?

Mr. FENTON. I was originally hired in Elwood, Indiana, and out of those 21 facilities, if I am not mistaken, eight are still in business at the present time. Most of the work has transferred offshore, whether it be Mexico or the Philippines or Portugal.

In 1985, I was given the responsibility of the Wabash plant, along with the plant that I was now serving, which was a Peru, Indiana plant. At that time, everyone knew that the Wabash facility was on the bubble. When I say "on the bubble," the idea that it may close at any time. As a matter of fact, back in 1980, prior to me coming, the announcement of the Wabash facility to close was given to all employees. Of course, back in 1980, there was no WARN Act and the rug could be jerked from underneath our feet at any time, without the 60-day notice.

During my tenure with the Wabash facility, we went through two contract negotiations and both times the thought of closing was brought out in negotiations. Of course, the last negotiations were the plant closing negotiations, and the union at that time did say they would take concessions. At that time, the only issue was the final date. There was no concessions that would be taken at that point by the company.

Most of the jobs that the Wabash facility had ran in concurrence with Mexico. Our larger jobs are well-paying jobs or ones that would leave the Wabash facility in the slow automotive time and come back. They would go to the Mexican plants, then return when the automotive production would start up high and heavy and Chrysler was doing well, and then we took the overflow from our Mexican operations.

If I am not mistaken, in 1990, they started looking at plants in the Philippines and in Portugal, and many of our production supervisors and superintendents went there to help start up, and some of our retired plant managers and superintendents also went.

The threat of the plant closing was just a threat until I knew about it prior to, I guess, the plant manager in January 1991. It was announced in March, and the plant closed in May of 1991. During that time period, we ran production. We received quality defects from Mexico in the Wabash plant to rework and to ship it out again with the Mexico label on it.

The one thing that I do want to say is I don't want to blame United Technologies. All businesses are there to make a profit. Our largest competitor, which is Jisaki of Japan, moved many of their manufacturing facilities to Juarez, also, and to stay in line with Jisaki, United Tech also started building many plants down there. Their quality was suspect, to say the least.

Again, the Wabash plant for the last 4 years was an overflow plant. The one thing that we could do and we thought we could do much better than any other plant was to cut circuits. And when I say "cut circuits," it's the wires. We are a wire harness plant, heavy labor. The machine would cut the wire in different lengths, put on what is known as terminals, then it would be assembled on jigs that would go around with an operator having a specific job on each jig. We did it well.

Our efficiency was one of the highest in the automotive wire harness business. Our cost or average hourly wage was at $6.25 at that

time, and that included our skill trades. But we could cut circuits and we cut many circuits for Mexico, to be assembled in Mexico.

Our problem was that Chrysler did not tell us to make the wire harness in Mexico. What they would tell us is that we would quote the job on Mexico prices, that is the only quote that they would accept. So you either make it much better in the United States or you sent it to Mexico to get the labor cost and the price cost that they were sending out.

I, myself, had two opportunities to go and stay with United Technologies in different areas of the United States. I was a single father and moving was not the ideal situation, especially—with no offense to the East Coast—with a 12-year-old son and me traveling all the time. So I decided to take my severance and look elsewhere in that area. Four months later, I found a position, a similar position with a different company also in the automotive industry as a supplier.

The hardest thing that I saw in a plant closing, the hardest thing that I had to do was to sit there and tell our employees, which the average age was around 45 years old, predominantly female, that to maintain their insurance it would cost them $340 a month, when you know that 70 percent did not have a high school education, and that a job for them, especially now, when a high school education or a high school degree or an equivalent is such a necessity, that they would not be able to find comparable, even at $6 an hour—a comparable job.

We had asked JTPA to come in. I sent out many letters to all of the other employers in the area and put in newspaper articles saying that we have good employees and we had some of the finest employees. We got a few placed, but, again, the high school education was the biggest deficiency that they had.

JTPA did an almost adequate job. For most employers in our area, we would have to hire people on our staff to use that particular agency, but at least some have gotten their high school education equivalent through them.

I stay in touch with some of our employees. As a matter of fact, I have hired quite a few at the facility where I work at now, in management and on our floor. In going through three plant closings in one function or another, I think the Wabash was the toughest, because of our workforce, uneducated.

Of all the things I can do, again, I don't think I would ever want to sit there and tell an individual they do not have a job for that reason. I cannot say it is all Mexico. Maybe 10 percent of our equipment went there. It was our best equipment, to be honest with you, but a lot of the jigs you can make in your garage and put together a harness in your garage. A lot went to the Philippines to the new start-up, which I guess pays less now than what Mexico does.

I guess that is all.

Senator LEVIN. Thank you, Mr. Fenton.

First, Mr. Lundy, let me ask you about your testimony that you packaged up the equipment that you had previously worked on. Can you just describe that process and what your feelings were like when you were packaging up the equipment and sending it somewhere else for other people to work on the same equipment?

Mr. LUNDY. Are you talking about the one where they required me to go down there and show them how to set it up?

Senator LEVIN. I thought you also made reference to the fact that you packaged up the equipment and shipped it to Mexico, and then you went down and helped train workers on that same equipment or similar equipment. Can you tell us about that and what your feelings were as you were doing that?

Mr. LUNDY. When I first came to the model shop, I was required to build the model shop and be solely independent from production, and I spent $750,000 and doubled the workforce. It took me 5 years to get it solely independent, so it was basically brand new equipment that we were sending down there.

The piece of equipment I sent down there was a flex-expander and I have personally worked well over a year to perfect that piece of equipment to produce a quality product in both samples and production. And when it was brought up that it was going to be sent down to Mexico, then he approached me and told me that I had a responsibility to go down there and show those employees down there what I had worked on for over a year.

Senator LEVIN. That was a piece of production equipment?

Mr. LUNDY. Yes—well, no. It could be used in production. I used it in the model shop, because I cut a lot of corners by using it. And I was resentful that I had to go down there and do that, yes. I did it and I did it with all sincerity.

To package each piece of equipment up that you bought or had and watch it go down there, that is not good. I did not enjoy that at all, no.

Senator LEVIN. Do you know off-hand whether or not when that equipment goes to Mexico, if that counts as an export?

Mr. LUNDY. Say it again, please.

Senator LEVIN. When that equipment that you had either created or worked on was sent to Mexico, do you know whether or not that counts as an expert to Mexico?

Mr. LUNDY. No, I don't. I know it was shipped to our warehouse on the American side and had to be cleared through Customs, so evidently it was.

Senator LEVIN. Did you then train people in Mexico on that same piece of equipment?

Mr. LUNDY. Yes, sir, both U.S. citizens and Mexican citizens.

Senator LEVIN. When it went to Mexico, was it production equipment?

Mr. LUNDY. Yes.

Senator LEVIN. So that the people in Mexico were using that equipment to produce something?

Mr. LUNDY. Yes, sir.

Senator LEVIN. What was the product they were producing on that?

Mr. LUNDY. Evaporators and condensers for air-conditioning.

Senator LEVIN. And that was used in a model—I'm not sure I understand you—in a model shop?

Mr. LUNDY. A model shop——

Senator LEVIN. M-o-d-e-l?

Mr. LUNDY. Yes. We produce samples. The technology constantly changes, and as it changes, I worked directly with the engineers and the customers in producing the new product, and——

Senator LEVIN. And why was that not used in production in Dowagiac?

Mr. LUNDY. Because it wasn't at the beginning for like 8 years, it could not produce a quality product.

Senator LEVIN. But how could it be production equipment in Mexico?

Mr. LUNDY. Because I worked on that particular piece of machinery for over a year and made a lot of modifications on it to get it to the point where it not only produced a quality product, but would be sufficient for new samples.

Senator LEVIN. So it had been used in production——

Mr. LUNDY. Yes, sir.

Senator LEVIN [continuing]. In the United States and modified by you and then shipped to Mexico, where again it was being used for production?

Mr. LUNDY. Yes, sir.

Senator LEVIN. Is that a fair statement?

Mr. LUNDY. Yes, sir.

Senator LEVIN. So you basically were training people to work on the machine there that took the jobs from people here?

Mr. LUNDY. Absolutely.

Senator LEVIN. On the same piece of machinery?

Mr. LUNDY. Yes.

Senator LEVIN. One of the things we are going to look at in a future hearing is whether or not the export of that piece of machinery counts as an export, which we think it does. So when we say exports are up to Mexico——

Mr. LUNDY. I see your point.

Senator LEVIN [continuing]. Included in the list of exports is the export of the machinery which we worked on here. It's a wonderful export. That is literally an export of jobs right there.

Mr. LUNDY. Correct.

Senator LEVIN. You could almost say that machinery is spelled j-o-b-s. I mean when that counts as exports, which we think it does again, it is extraordinary that we would say that is the same thing as exporting parts to Mexico or exporting whatever.

Mr. LUNDY. Absolutely.

Senator LEVIN. Another thing we will be looking at is as to whether or not the parts that are counting in the exports which go to Mexico, which our first witness discussed, were parts which previously were used in the United States, and the answer is yes, we think. Then to count those parts previously used in the United States as part of an assembly operation, to count those parts now as exports, because they are shipped to Mexico, also gives a very distorted picture of exports, because the export of those parts actually represents a loss of American jobs net, if you follow me.

But that is not this hearing. We are going to get into that at another hearing in terms of what constitutes exports and the distortion that you get when you count as exports items which previously had been assembled here, and when assembled in Mexico or anywhere else, represent a loss of jobs, because the assembly work

which had been done on those parts used to be done in the United States.

So those are two areas we are going to be looking at. One is whether the machinery which was used here and which is now shipped to some other country to produce, is counted as an export. That is bizarre, if that counts as an export, since it is a direct loss of jobs on that machine, since that machine used to be worked by American citizens.

You said, I believe, Mr. Lundy, that your plant for a while redid the mistakes of the Mexican plant. I think that was you——

Mr. LUNDY. That is absolutely true.

Senator LEVIN. What was involved in that?

Mr. LUNDY. Solder leaks, for example, we solder end caps, which is a component, and they can't leak. You know, we've got numerous, just boxes and boxes and boxes shipped back to our Dowagiac plant which our workers had to redo and make the product right before we could send it on to our customer.

Senator LEVIN. Did all the products come back to Dowagiac before they went to the customer, or just the parts that had to be redone?

Mr. LUNDY. The parts were shipped to the customer. They had——

Senator LEVIN. From Dowagiac?

Mr. LUNDY. No, from Mexico.

Senator LEVIN. Oh, I see, then the customer complained that——

Mr. LUNDY. The customer discovered that there was a fault in them and from there they were shipped back to Dowagiac.

Senator LEVIN. Did you have a large number, do you know, of that type of repair after the transfer of the operation to Mexico? Were there more——

Mr. LUNDY. Absolutely.

Senator LEVIN. You had more defects from the Mexican plant than you ever had in Dowagiac.

Mr. LUNDY. That cannot be disputed at all. That is absolutely true, because I was directly involved with the customers in my position and had the freedom to walk wherever I wanted on the floor and also knew, regardless of what it said on the boxes, what was in the boxes. That is absolutely true.

Senator LEVIN. Now, you indicated that there was no discussion with you prior to the decision to move to Mexico about the employees making concessions, so the plant could stay open in Dowagiac.

Mr. LUNDY. That is true.

Senator LEVIN. Say they had talked to the employees. Was there any way you could compete with labor at $1 an hour? Could you make concessions adequate enough to have made a difference?

Mr. LUNDY. That I really can't answer. My point being there is we were not given the opportunity. That I think is wrong. No, we could not work for that kind of pay. But had we been given the opportunity to save the company, we all would have taken cuts. There is absolutely no doubt about that. And I am not talking about 20/20 hindsight here.

I talked to people on a daily basis while I was out there working, "What do you think, Jerry," you know, "are they being honest?" You know, "Would they open the books?" There's no doubt that we

would have taken a 15–20 percent cut in pay and have been happy to do it. I can't answer whether we could have been as competitive as we are, no.

Senator LEVIN. OK. Ms. Bachmann, let me first ask you about what job did you have? What was your particular job?

Ms. BACHMANN. In the factory?

Senator LEVIN. Yes.

Ms. BACHMANN. At the time that I actually got laid off, I was a light assembly person in the cap tube department, but I had worked in several different departments. I spent the majority of my years in what they call the AC pressroom that made the aluminum fins and we assembled copper tubing through it for these evaporators and condensers.

Senator LEVIN. About how much did you make per hour?

Ms. BACHMANN. Well, if you go with my flat hourly rate when Sundstrand still owned it, I made approximately around $10.20-some an hour, plus we also made incentives, we got paid incentives piece-rate, which in the department that I was working in when I lost my job, before the incentive was taken away from us, which this happened when Modine bought Sundstrand, they done away with all incentive programs.

Senator LEVIN. When you had the incentive program, what did that add an hour, roughly?

Ms. BACHMANN. I took the last 6 months that I had worked and I averaged $60 a week.

Senator LEVIN. So that would be another dollar-plus an hour?

Ms. BACHMANN. A little over a dollar.

Senator LEVIN. So you were making somewhere between $11 and $12 an hour, including incentive?

Ms. BACHMANN. That was without any benefits.

Senator LEVIN. Plus benefits?

Ms. BACHMANN. Right.

Senator LEVIN. Then after you were laid off, I think you said you went to college?

Ms. BACHMANN. Yes, I attended college for four semesters equivalent, a full-time student. At that time, I didn't work. I worked just temporary at the hospital, which I got involved with the hospital through the training program, because they have on-the-job training that you can coordinate with your college program and you get college credits for it. You don't earn any income. But it's an excellent opportunity to get your foot into a door and show the establishment what kind of person you are and it gives you a little advantage over the younger, less experience people, that where if you were going on a one-and-one basis interview, so these on-the-job programs I feel is what I most benefited from while I was there.

Senator LEVIN. What do you do now?

Ms. BACHMANN. Currently, I am employed at the same facility that I did the two on-the-job training programs while I was in college, at Lee Memorial Hospital in the billing department, and also I work in admitting registration.

Senator LEVIN. How much do you make there?

Ms. BACHMANN. At the time I was hired full-time, I was hired in at $5.88 an hour. After over a year being with the hospital, I am currently making $6.43 an hour.

Senator LEVIN. So that after you lost your job, you got four semesters of college training, and now as one of the lucky ones that are working, you are making between $6 and $7 an hour, instead of between $11 and $12 an hour, is that correct?

Ms. BACHMANN. Well, $6.43, to me that is closer to $6 than it is $7.

Senator LEVIN. I will be more precise. You are making $6.43 an hour now, as compared to between $11 and $12 an hour which you made at the company where you were working——

Ms. BACHMANN. That's correct.

Senator LEVIN [continuing]. Including incentive pay and the benefits, by the way, are they——

Ms. BACHMANN. My benefits are equivalent to about one-quarter of what I had when I worked at Sundstrand. That includes vacation, holiday pay, and insurance.

Senator LEVIN. And you are one of the ones that has a job.

Ms. BACHMANN. I am considered by all the people a success case. I feel lucky to be where I am at. I often wondered after this was set up why I was asked to be here, because I am holding my own. I do have a good steady job. I hopefully stayed away from the manufacturing industry, went to a health care facility, because hopefully maybe the Government may get into health care, but I don't think the hospitals are going to be moved to Mexico. I tried to stay as far away from anything that I thought might be disrupted by a move to Mexico as I could. I mean that is why I——

Senator LEVIN. I think the point of your testimony is very significant, because if you are considered a success, which you personally do, because you have survived, nonetheless, the success is defined as making half as much after four semesters of training and having one-quarter of the benefits. That is the success.

Ms. BACHMANN. Right.

Senator LEVIN. Now, if that is a definition of financial success, not personal success, but if that is a definition of financial success, it does not take much imagination to know what a financial failure is.

Ms. BACHMANN. That is very, very true.

Senator LEVIN. Your testimony is very important.

Ms. BACHMANN. And I struggled. Like I said, when I went to school, it was hard taking medical terminology, computer classes, and I was at a high level with the school background, even though I had been out of school for 30 years, I was fortunate enough to have the background to get into these programs, and I can't stress how rigid the programs are and how much stress they put on you. You can't deviate from these programs.

If you were to be called back for a short time, which a lot of people were called back—when Jerry talked about these products coming back to Sundstrand to be repaired—they would call people back from layoff and they would interrupt their schooling or they would interrupt a new job that they had replaced their old job with, and that caused them to lose the new job and it also caused them to lose their schooling, because you could not so much as drop a class, once you signed this contract with the State, because once you did, your schooling was stopped.

Senator LEVIN. Thank you.

Mr. Fenton, you made some reference to the quality of the work being done at the Mexican plant. I think your words were that the quality was defective.

Mr. FENTON. Yes.

Senator LEVIN. Can you tell us a little bit more about that?

Mr. FENTON. The wire harnesses that we got back, to keep business with the automotive company, of course, there is zero percent defect, and once they would find a harness that was defective, they would stop all shipments and send them to Wabash, so that we would go through where the defect lied. It was cheaper for us to go through it. It took less time for us to fix the defect than it would be for us to build the entire harness, so it was still cheaper.

Senator LEVIN. Were there more defects out of the Mexican operation than there had been when it was in the United States?

Mr. FENTON. Very much so, yes.

Senator LEVIN. And was the process that the customer would return the harness to you, or was it the process that all of the wire harnesses were shipped to you and then tested in some way and then sent to the customer?

Mr. FENTON. Both, it happened both ways. If we had a harness that got to the customer that was not what they wanted, then all shipments would just come to us prior to getting to the customer. Then for some time thereafter, what we would have to do is they would build the harness, then we would check it to our gauges at Wabash.

Senator LEVIN. The UTA plant closing press release stated that it was closing the plant because there weren't enough orders from UTA's main customer, Chrysler, to stay open. We have a statement provided by Chrysler which said that they actually increased purchases from United Technologies and deny that declining sales affected the purchases from Wabash. "There's no basis for the statement which was included in the United Technologies press release indicating that declining sales have affected our purchases from that plant." Does that surprise you?

Mr. FENTON. No.

Senator LEVIN. What are the facts? Were there declining sales to Chrysler from UTA?

Mr. FENTON. The Wabash facility, like I said, was a job shop. Whenever there was an overrun, our sales increased dramatically, especially through the Mexican plants. Then we would build and we would hire hundreds of people in a short time to fulfill the requirements from Chrysler. It was a lot easier, right, wrong or indifferent, a lot easier for us to lay off in the United States than it would be to lay off in Mexico, for a number of different reasons. And we would ship the fixtures, the jigs and some equipment down to Mexico to insure that Chrysler received the appropriate orders.

Senator LEVIN. But were there declining sales to Chrysler?

Mr. FENTON. From our plant, yes, but I would think——

Senator LEVIN. I mean from UTA.

Mr. FENTON. I wouldn't be privy to that information.

Senator LEVIN. I mean they were from your plant, after they moved the jigs and fixtures, you mean?

Mr. FENTON. Well, it seemed like we did a lot of work just for Mexico.

Senator LEVIN. Did the company ever use the threat of moving to Mexico or elsewhere where wages were lower as a tool to gain concessions from its employees?

Mr. FENTON. They never used that as a tool to gain concessions. When in negotiations, everyone knew that Wabash was on the bubble, like I said. The fact that we could not increase to other UTA plants—and when I say other, they made other products, the wire harness business is very competitive and you can go down the road and find somebody building them in their barn for paying minimum wage, but we would let them know and this is the reason why we could not increase the wages or the benefits or holidays or whatever the case may be, and we did not increase benefits and wages dramatically over the 5 years I was there.

Senator LEVIN. Would you say then that there were concessions that were made in order to keep the plant competitive? Is that a fair statement?

Mr. FENTON. When I think of concessions, I think of giving back. Nothing was given back.

Senator LEVIN. But less benefits were added than might normally be expected or had been the history?

Mr. FENTON. It had been the history. You have to realize, in the 1970's, the automotive industry was booming and in the 1980's slowed down.

Senator LEVIN. Do you think there is anything that could have been done to save the jobs there?

Mr. FENTON. No. My guess is the die was cast many moons before the closing.

Senator LEVIN. Was that because of the wage differential, mainly? I mean even if there had been a request for concessions, could there have been enough concessions before the die was cast to avoid the die being cast?

Mr. FENTON. I would think the wages and benefits was a large part of it. Our facility itself was a part of it. It was an old building. The labor climate, that's why I went to Wabash, because the labor climate was less than desirable. We got that turned around, so that was taken out of the picture. But wages and benefits I would think was a large portion of that, compared to Mexico.

Senator LEVIN. The differential between Mexico and the U.S.?

Mr. FENTON. Very much so, yes.

Senator LEVIN. Thank you all. We appreciate your testimony and your coming forward, and it is very helpful.

Thank you.

Our third panel is Harry Browne. We are especially pleased to welcome him. He is a research associate at Inter-Hemispheric Education Resource Center. Today he is releasing a preliminary list of plants that his company has verified have moved to Mexico. And the Resource Center is a nonprofit, privately funded organization that has put this list together, frankly, because the U.S. Government does not provide such a list.

Mr. Browne, your research is timely indeed, and I think you are going to find a high level of interest in your work among members of Congress. We welcome your testimony.

TESTIMONY OF HARRY BROWNE,[1] RESEARCH ASSOCIATE, THE INTER-HEMISPHERIC EDUCATION RESOURCE CENTER

Mr. BROWNE. Thank you very much, Senator.

Thank you for holding the hearing, and certainly thank you for your interest in the subject as a whole. I, as an interested citizen, and I am sure the thousands of workers who are represented in the study, but whose stories do not come out except in testimony such as this, certainly appreciate the interest.

The Resource Center provides information and analysis to community leaders, labor activists and—when the occasion arises, such as this—to national policymakers. In the last decade, we have focused largely on U.S. relations with Mexico and Central America.

Our work in that area has made us aware of the extent to which U.S. manufacturing base is leaving this country. Our Government has promoted the movement of manufacturing abroad through provisions of U.S. tax and tariff laws, as well as through the Overseas Private Investment Corporation. Furthermore, U.S. policy has strongly pushed the governments of developing countries to open their economies to foreign investment and to provide tax, infrastructural, and other incentives to attract firms from the United States and other countries.

In researching this issue further, we discovered that despite its active role in the relocation of manufacturing, our Government could tell us nothing, as you noted, about its real-life effects on workers and on the economy as a whole. No agency had attempted to correlate plant closings here, for example, with manufacturing in low-wage countries abroad or to document the downward pressure, that you and Mr. Fenton were just talking about, such relocations have placed on the wage levels negotiated by workers and unions who increasingly find themselves competing with low-wage foreign employees of their own corporations.

The closest thing to such an effort was the compilation of quarterly Mass Layoff Reports by the Bureau of Labor Statistics. These reports, however, were useless for tracking manufacturing relocation, for two reasons. First, they relied on self-reporting by corporations of the reasons for moving, and again, as has been established at this hearing, corporations often do not reveal the reason for their moving.

For example, in 1988, only nine events listed by the BLS in their report were listed as due to overseas relocations, when, in fact, we have established that in 1988, 25 plants at least moved to Mexico alone, much less anywhere else.

Second, the BLS reports were aggregated by State and industry and provided no company-specific data. This made it impossible to verify the reasons given for a particular layoff or closing. Further, there was no distinction made between a relocation to Mexico, for example, and one to Canada, despite the very different implications those two moves would have about U.S. policy and about U.S. economic competitiveness.

[1] The prepared statement of Mr. Browne with attachments appears on page 132.

As you are aware, the BLS has placed these reports on hold. If you are able to convince the agency to resume their publication, I would hope that some of these issues would be addressed.

Instead of conducting down-to-earth studies, administration officials have relied on economic modeling to reassure themselves and others that facilitating plant relocation would improve economic efficiency and generate net gains for this country and the world as a whole. And as has every other witness I think mentioned, I, too, wish Senator McCain could have been here—this is certainly his argument—there is an increase in jobs in the United States.

The models that are used to reach this conclusion are fundamentally flawed by assumptions that you and I know to be unreal, such as full employment, fully competitive markets and universal adherence to free market principles by our trading partners.

Most relevant to this hearing is the fact that the theory of comparative advantage, upon which free trade advocates rest their arguments, is rendered obsolete by high capital mobility. Senator McCain's hero of sorts, Adam Smith, himself noted that free capital mobility would undermine what came to be known as the theory of comparative advantage, although at that time it was not called such.

Our new Secretary of Labor has argued that we cannot consider our capital stock to be "ours" any more, nor our technological lead, since both are freely transferred around the globe. We certainly cannot depend on U.S. capital and technology by themselves to replace the jobs that runaway plants take with them with better-paying, more productive employment. These higher-wage jobs that are supposed to replace the lower-wage jobs that are leaving are also moving abroad. I would be very glad to discuss that issue more. I think it is a very important aspect of NAFTA.

Just one example that I am very familiar with, for example, is Ford's investment of $1 billion in two existing state-of-the-art plants in Mexico, to add capacity and flexibility. These plants are in Hermosillo and Chihuahua, and they produce with very high technology, and get very high quality results.

I believe there are two reasons for the failure of the U.S. Government to collect this critical information on the functioning of the national economy. The first is the understandable desire of the last two administrations to downplay the extent of human suffering attributable to their free market and anti-labor policies.

The second reason stems from the free market ideology itself, which refuses to acknowledge that the Government can and should concern itself with monitoring and ameliorating the effects of such so-called "microeconomic" events as plant closings. These microeconomic decisions affect whole communities. This position, as you are well aware, was a principal source of opposition to the WARN Act and the reason it was watered down between 1974 and 1988 by the time it was finally passed and signed.

In pursuit of solid information about what we call "runaway" plants, the Resource Center launched a year-long investigation into the movement of manufacturing to Mexico. This effort stems from a desire to understand the ramifications of the proposed North American Free Trade Agreement. Labor advocates, environmentalists and others argue that greater capital mobility resulting from

NAFTA will accelerate the movement of manufacturing jobs from the United States to Mexico and encourage corporations to avoid relatively strict U.S. environmental laws and regulations, by shipping their most highly polluting operations south.

This, by the way, is a highly controversial position. There are many who deny that this is a reason for moving to Mexico. There are numerous studies on the issue that find one way or the other. Again, I would be glad to address that question.

Our research indicates that this is a very real threat and suggests that the integration of the U.S. and Mexican economies must not be based on an imbalance in labor rights and environmental protection. Further, such integration must be accompanied by measures that encourage corporations to act like responsible community members, rather than transient opportunists.

As you noted in your opening statement, I have submitted to the Subcommittee a preliminary list of some 197 work sites identified by our research as having suffered a loss of employment as the result of a direct shift of work from the United States to Mexico. This has been rendered into a map by your staff very effectively, I think.

The number of jobs directly transferred out of these plants that we could account for is roughly 80,000. I would like to be clear about what I mean by direct shift of work. The work sites we have listed all suffered a net loss of employment associated with the corporate decision to halt production of one or more specific goods in the United States and to launch or expand production of the same or a closely related product in Mexico. This is a very narrow definition of runaway jobs.

For one thing, we have not included the ripple effect that runaway jobs have on affected communities, that is the jobs lost in supplier industries and among businesses that provide services to the employees of local manufacturers.

We have also omitted three of the principal means by which U.S. jobs move abroad from our list. These are out-sourcing of component production to independent suppliers based abroad. This would include, for example, shelter operations such as the one run by Mr. Fairfax.

We have excluded the conversion of a manufacturer into an importer of finished goods. This was rampant in the consumer electronics industry. And we have excluded the loss of jobs resulting from increased import market share in a given product area.

Nor do we account for the conversion of permanent jobs to temporary jobs, such as Mr. Fenton was explaining, where overflow production comes back to the United States, temporary employees are used to fill gaps, and then when production slows again, temporary layoffs occur. We have only counted permanent layoffs, and those temporary fluctuations then escape our attention.

Third, in choosing to list only those plants where a direct production shift took place, we are also ignoring the opportunity costs to the U.S. economy of jobs created in Mexico by the expansion of activities there, rather than in the United States. For example, Cummins Engine's 1991 decision to set up two new crankshaft lines in another state-of-the-art facility, very high technology, in San Luis Potosi, rather than in an existing plant in Fostoria, Ohio, or in

other U.S. plants that could perform the work, does not appear on our list.

On top of the conservative definition we use for runaways, the number of plants on our list is limited by significant data collection problems. Gathering complete and accurate data for Mexican manufacturing operations was a painstaking task, but it was far more difficult to gather systematic information about plant closings or permanent layoffs in the United States.

Before 1989, employers were under no obligation to make public their layoffs or shutdowns. Since the Worker Adjustment and Retraining Notification Act took effect early that year, each State has maintained a list of closings and large-scale layoffs. But the WARN Act is shot through with loopholes that greatly weaken its usefulness to workers and to researchers such as myself.

As the General Accounting Office recently reported, a great many of the mass layoffs the Act was intended to cover go unreported. From a researcher's perspective, even worse than that is the absence of useful information included in WARN listings and the inaccessibility of these listings to the public in several States.

Only a handful of States provide information about the product or industry involved in a layoff or a shutdown. A large portion fail to differentiate among shutdowns, permanent layoffs and temporary layoffs. And 10 States, including the key State of California, shown on your map as having been a large source of runaway plants, either refuse to release their lists in any form or make it too costly or difficult to obtain.

The lack of Government information forced us to rely on press clippings and personal interviews for data on shutdowns and layoffs. But few corporations, as noted previously, broadcast their intention to move jobs to Mexico, although some do as part of a negotiating strategy that involves obtaining concessions from workers. Mostly they view this move as a potential public relations liability.

What is more, runaway production rarely follows the classic pattern of a closing in the U.S. accompanied by a new facility making the same product in Mexico. Instead, it often occurs through a gradual decline in orders filled by one plant and a gradual build-up of work assigned to another. Runaway production can also happen as a part of a consolidation, a rationalization or restructuring of productive activities that resembles a shell game, with production being split and shuffled among numerous plants.

In 1982, for one example, the Arlington, Texas GM plant stopped producing the El Camino, a popular model here, moved that production to Ramos Arizpe in Mexico, and replaced that production with another model, so that there was no loss of jobs in Arlington. Those production jobs were lost somewhere else and it is very difficult for us to track something like that, so those losses are not indicated on this list.

For these and other reasons, we believe our list represents only a portion of the flight of U.S. jobs to Mexico, and Mexico, of course, has received only a portion of all U.S. jobs shipped overseas. Puerto Rico, the Dominican Republic, Central America, Taiwan, South Korea, Singapore all figure heavily, and Malaysia.

Nevertheless, it is an instructive list and it illustrates the breadth of jobs and regions affected by runaway employers. By the

way, that map would show several more States by now with dots on it, including my own of New Mexico and Nevada, and we have roughly 20 more plants in the 2 weeks since we prepared that list and now.

Certainly, the Sun Belt, commonly perceived to have been a beneficiary of capital mobility as factories move from North to South, has experienced a very significant share of the jobs lost to Mexico.

The challenge of slowing the drain of manufacturing employment is a great one. But one very important place to start is in strengthening the ability of local governments, community groups and workers to respond to threatened plant closures. The Resource Center does not take positions on specific legislative initiatives, but we would encourage you and your colleagues to balance the rights of private investors to do what they want with their capital, with the rights of workers and communities to participate in or at least be informed about decisions that affect their fundamental interests.

Thank you very much.

Senator LEVIN. Thank you, Mr. Browne.

First, I want to go over one example that you gave us on page 2 of your testimony, and that is that in 1988, according to the Bureau of Labor Statistics, there were only nine closings of plants in the United States which were due to overseas relocation anywhere.

Mr. BROWNE. That is correct.

Senator LEVIN. But according to your research, which you say misses probably one-third to one-half of all the runaways, 25 plants you say lost jobs to Mexico alone. Does that mean that they moved to Mexico?

Mr. BROWNE. They moved at least some production jobs. As both of the cases here today indicate, often a plant stays open, even though many of the production jobs have been shifted.

Senator LEVIN. Now, does the Bureau of Labor Statistics purport to tell us where there is a total closing, or does that include partial closings, the nine events?

Mr. BROWNE. That includes permanent shutdowns and large layoffs which I believe they define the same as the WARN Act, that is, over 50 at a time.

Senator LEVIN. Now, do your 25 work sites losing jobs use the same definition?

Mr. BROWNE. Yes, they do.

Senator LEVIN. So that using the same definition as the Bureau of Labor Statistics, you have shown that at least 25 closings or substantial reductions in that year 1988, whereas, the Bureau of Labor Statistics had the number at nine, and you show only for Mexico, and they show for the whole world.

Mr. BROWNE. That's correct.

Senator LEVIN. And your research again misses one-third, you believe, to one-half of the events?

Mr. BROWNE. I believe that's correct.

Senator LEVIN. OK.

Mr. BROWNE. It should be noted that in that year, 1988, the BLS surveys involved only 29 States out of the 50 States, plus the District of Columbia and Puerto Rico, and they acknowledge that.

Senator LEVIN. So that is set forth in their report, the limitations are set forth in their report?

Mr. BROWNE. That's correct.

Senator LEVIN. Why don't they give us a more complete picture?

Mr. BROWNE. The States were not mandated to participate. It was a voluntary arrangement. They received money for doing so, which is why by the time it was shut down, 49 had decided to sign on. That is certainly one reason.

Another more fundamental reason is that individual corporate decisions are generally viewed by the Federal and the State Governments as private, and it would challenge the right of a corporation to move its capital wherever it wanted. To publish their names is the theory, that in some way that would put these companies at a competitive disadvantage, so they do not publish individual company data. That is a more fundamental problem with the reports.

Senator LEVIN. Well, they could give us total numbers, without publishing names, right?

Mr. BROWNE. They certainly could. That is their intention. They are relying on voluntary reporting by the corporations.

Senator LEVIN. What are the reasons that Congress has been so unsuccessful in getting this data? You indicate that there are a number of private places, one in California, I believe, the Data Center that has been cataloging plant closings.

Mr. BROWNE. That's correct.

Senator LEVIN. Is that a comprehensive catalog?

Mr. BROWNE. No, they would certainly acknowledge it is not comprehensive, also. Certainly in the earlier years of the 1980's when they started, their data collection problems were the same as the ones I am finding now and that is that new technology for online computer searching and CD-ROM access on computers, for example, were unavailable. Therefore, in the early 1980's, the first half, at least, many, many plant closings were never logged by anybody.

Senator LEVIN. But is there any reason why an agency of the Government could not do what you do, which is to take whatever sources are available out there, be it the Oakland firm or be it Newsbank, which has headquarters in Connecticut, or all the other indexes of major newspapers on record? You have indicated a lot of other sources. Is there any reason why a government agency could not do what you do and give us a more complete picture of plant closings?

Mr. BROWNE. There is no technological reason whatsoever. They would be able to do a far better job than the Resource Center. Presumably, they would have a budget that would allow them to use much more expensive private data information services such as Dun & Bradstreet's Market Indicators, which, if searched by locality and matched up, would give a much, much more complete picture of changes in employment levels by specific company, much less by industry.

Senator LEVIN. How much do you think it would cost the Federal Government to come up with a good assessment of how many plants are closing a year and moving abroad or moving to Mexico?

Mr. BROWNE. You have to understand that I work with an organization with a $200,000 budget annually, and that estimate would be beyond me. I know the BLS budget for its mass layoff reports

was $6 million a year. I imagine they would have to add to that considerably.

Senator LEVIN. Well, they would have to add to that budget, but it would not cost $6 million just to do the plant closing part, would it?

Mr. BROWNE. Certainly not.

Senator LEVIN. Do you think, for instance, that for $1 million, the Federal Government could give us a pretty comprehensive report of plant closings per year and where they are going?

Mr. BROWNE. I would think so. Again, my conception is based on——

Senator LEVIN. Small business?

Mr. BROWNE. Small business, exactly. I imagine government spending is on a different scale.

Senator LEVIN. But is that a realistic number, based on your experience, that for $1 million we could get a good assessment as to how many plants are moving, either substantially or totally?

Mr. BROWNE. The Resource Center would be very glad to take that contract for $1 million.

Senator LEVIN. You could give us a pretty comprehensive report?

Mr. BROWNE. Yes, I think so.

Senator LEVIN. Well, we have got Senator Pryor on this Committee who is very leery about use of consultants. I am not so sure that we can make a commitment to contract this out.

Mr. BROWNE. He should be leery of consultants, I think.

Senator LEVIN. What about the questions the BLS asks, is that part of the problem, that they don't ask all the right questions?

Mr. BROWNE. I don't know precisely what their survey includes. Certainly, they don't publish the right questions, if they have asked them.

Senator LEVIN. You have shown us a list of 197 plants which you say have recently been updated I believe to 216?

Mr. BROWNE. That's correct.

Senator LEVIN. We understand that you have a longer list of over 300 plants that you have not yet verified. Is that 300 in addition to the 216?

Mr. BROWNE. Yes, the total now is 540, of which 216 are confirmed.

Senator LEVIN. And that's the list which has moved over what period of time, you believe?

Mr. BROWNE. For the most part, the list starts in the early 1980's, 1983–84. There are a few exceptions where we found something out earlier that we have included. The boom time for Mexico really was after 1982, and that is the relevant period for us.

Senator LEVIN. Now, does your list, which is about 500 covering a period of time from 1983–1993, look at long-term net reduction in employment at a U.S. facility accompanied by an expansion of employment at a new or existing Mexican facility or something less than that? In other words, what is that 500 plants?

Mr. BROWNE. The 216 is precisely what we have defined, either an expansion in Mexico or a new plant in Mexico. The others are closings and layoffs, large layoffs, permanent layoffs that we know about in the United States by a company that has operations in Mexico that produces a product related, we believe, to the products

produced in the United States, but that because of insufficient data either in Mexico or on the U.S. side, we don't know precisely which product it was or we don't know how many jobs are in Mexico, for example, or whether they expanded as a result of the closing in the United States.

My estimate would be, with significant investment of time and personal interviews and site surveys, we could double our list of 216 confirmed plant closings.

Senator LEVIN. Can you make available to the Committee, the additional plants as you confirm other data?

Mr. BROWNE. I would be glad to do it in whichever form Ms. Pascale or anybody else requests it.

Senator LEVIN. When you were doing your research, what did you uncover in terms of the reasons that U.S. companies have for moving to Mexico?

Mr. BROWNE. That analysis actually will be completed later this month and we will be publishing that in late May. Certainly, wage rates are the largest factor, I think there is no question about that. Whether, as Mr. Fairfax has discussed, these are corporations that never even thought about moving or they have already thought about moving and the decision is to go to Mexico, the fact is that the wage rates are a major factor.

Another factor that often occurs, especially in the auto industry, for example, but in others also, is the ability to mold a new workforce, rather than work with an old workforce that has set ways and that has union restrictions on work definitions, for example. Mexican unions do not operate that way.

Senator LEVIN. And certain benefits that have been built up?

Mr. BROWNE. There are benefits, certainly, and I count those as wage issues.

Senator LEVIN. I see.

Mr. BROWNE. What I am speaking of is workforce organization. The Mexican workforce generally is much more flexible in that you can assign somebody to do any number of jobs, without meddling by union representatives in that decision.

Senator LEVIN. Why is it important to identify the number of plants that have moved to Mexico? What is the relevance of that to our policy deliberations?

Mr. BROWNE. I think there is a significant difference between a plant closing, a runaway plant, as it were, and lost opportunity for new jobs or other forms of indirect job loss, because a plant closing has a major effect on employees who have already planned their lives around that employment, and communities that already depend on that investment and that payroll. So looking specifically at this segment of job loss isolates an opportunity to improve your policy in this area, by allowing workers and communities and community activist groups to respond to threatened relocations.

The more indirect job loss, for example, of changing a quota on apparel imports or of opening trade with Mexico through an agreement, for example, that would cause an increase in imports and, thereby, an indirect loss of jobs in the United States, is harder for policymakers to target in terms of giving workers and communities the ability to respond. It is the isolated plant closings that can be identified that offer that opportunity.

Senator LEVIN. We want to thank you and the other witnesses. We are going to have a second hearing on import and export data. It is going to be on April 28, and we are going to have Commerce and Labor here to testify. Any additional data which you have by that date or even later, by the way, would be very helpful to us.

Our witnesses today have been very, very helpful to us. For the policy deliberations of the Congress, there has been a lot of very significant testimony that has been forthcoming today, and we are very most appreciative and we thank you all.

We will stand adjourned.

[Whereupon, at 11:50 a.m., the Subcommittee adjourned.]

OVERSIGHT OF FEDERAL TRADE DATA: WHAT WE DON'T KNOW COULD HURT US

WEDNESDAY, APRIL 28, 1993

U.S. SENATE,
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT
MANAGEMENT, COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 9:40 a.m., in room SD-342, Dirksen Senate Office Building, Hon. Carl M. Levin, Chairman of the Subcommittee, presiding.

Present: Senators Levin, Dorgan, and McCain.

Staff Present: Linda J. Gustitus, Staff Director and Chief Counsel; Alison Pascale, Legislative Assistant to Senator Levin; Frankie DeVergie, Chief Clerk; Jim Beam, Legislative Assistant to Senator Levin; Kim Corthell, Minority Staff Director; and Nate Rice, Majority Intern.

OPENING STATEMENT OF SENATOR LEVIN

Senator LEVIN. Good morning, everybody.

The Subcommittee hearing today will look at two problems: first, how export data is used in a misleading way to create the impression that all exports result in job growth; and, second, our woeful lack of information on plant closings and plant movement out of the country.

Both of these elements are key in assessing the real consequences of the North American Free Trade Agreement, NAFTA. And yet, as we will learn today, that data and, thus, those claims are seriously flawed.

Proponents of NAFTA claim that NAFTA will be good for the United States because U.S. exports to Mexico will grow. The Commerce Department estimates in its report entitled "U.S. Jobs Supported by U.S. Merchandise Exports to Mexico" that for every $1 billion worth of U.S. exports to Mexico, about 20,000 jobs are created.

We have been told over and over again that increased exports are directly translated into job growth. In Michigan, we are told that about 31,000 jobs depend on exports to Mexico. Economists, Government agencies, and trade analysts have used this assumption to project future job gains through even larger exports under NAFTA.

Today's hearing will debunk that myth. It will throw a monkey wrench into much of what we have been told about U.S. trade with Mexico; that is, that U.S. trade with Mexico is unequivocally a

good thing for America. We will see why we cannot simply assume that all exports to Mexico mean jobs growth.

First, the Census Bureau will testify today that everything, including the kitchen sink, is counted in the definition of an export. That means that all machinery and equipment are counted as exports even though that equipment may be exported in order to relocate a former factory from America to another country.

In our April 1st hearing, the Subcommittee heard from American workers from Michigan and Indiana who lost their jobs to Mexico and were required to pack up the equipment and remaining supplies that were used for the jobs and to ship them to Mexico for the new jobs in Mexico. Some even had to go to Mexico and train the workers there on how to operate that very equipment.

Surely no one would suggest that the export of that equipment creates American jobs when it is the direct result of the loss of American jobs. Yet all that equipment and those supplies are counted as U.S. exports to Mexico and are included in the calculation linking exports to job growth. That doesn't make sense, and it is a misleading calculation.

Second, in 1965, Mexico established what is called the maquiladora program. This program allows U.S. companies to ship raw materials and parts into Mexico, duty free, provided the finished or partially assembled product is shipped back to the United States or exported to another country.

According to Mexican data, which has been compiled by the GAO, maquiladoras obtain over 99 percent of their supplies and materials from the United States and send over 99 percent of their products back to the United States. All the supplies and materials sent to maquiladoras are counted as exports from the United States, and all the products shipped back to the United States for sale are counted as imports.

Yet, in reality, the materials were simply shipped to Mexico for added assembly, not consumption, and the maquiladora operation often has manufacturing and assembly operations, many of which were previously done in the United States by American workers in American jobs.

We have not created a new export market for American goods with the maquiladoras. Instead, we are simply trading those parts and components with ourselves.

But in our trade data, these shipments to and from maquiladoras, comprising roughly 39 percent of our total trade with Mexico, are counted by our Federal agencies as exports and imports, even though it doesn't represent real trade with Mexico.

Interestingly enough, even the Mexican Government doesn't include maquiladora trade in its trade data because it does not consider it to be true Mexican trade. We do, however, let it form part of the basis for assessing present and future job growth.

Trade data compiled for individual States of the United States is also weak and even less reliable. For example, U.S. Government figures for State exports record the State from which an item was actually exported and not the State from where it was manufactured or grown.

As much as 30 percent of the exports attributed to a specific State may actually not be from that State. According to our own

Commerce Department, "The data may even show significant exports of manufactured products from States where manufacturing plants are virtually non-existent."

While State-by-State export data may be inaccurate and unreliable, accurate State-by-State import data simply does not exist.

The Commerce Department has, nonetheless, published a book relying on State-by-State statistics to advertise the importance of exports to Mexico for each State. The Commerce Department claims the study is the most up-to-date source of information on State exports. Its caution in the fine print, however, against relying solely on these statistics when drawing conclusions about the contribution of exports to a given State's employment and overall economic health is lost in the ballyhoo of the big print about the huge growth in exports and in the flat-out representation that U.S. exports translate directly into U.S. jobs.

Commerce, the Trade Representative, and others use that data to assert that, for example, Michigan's exports to Mexico have grown massively in recent years and that new jobs were thereby created. Michigan legislators have been encouraged to support NAFTA because this study shows that Michigan is the third largest exporter to Mexico and that those exports are growing.

We aren't told that those exports include the value of our plants and equipment relocated to Mexico. And we aren't told that those exports include parts and components for offshore assembly which were previously assembled in Michigan.

The Federal Government also doesn't have any way to track how many of the parts and components exported to Mexico may have once supplied assembly plants in the United States.

When a U.S. plant relocates to Mexico and continues to be supplied in whole or in part from the U.S., the result in that book is growth in U.S. exports to Mexico, and jobs are linked by the Commerce Department, the Trade Representative, and others to those exports. But, in fact, American jobs have been lost in that circumstance, not gained.

Moreover, we don't even keep adequate track of plant closings or plant relocations. According to a CRS report released at the April 1st hearing which concluded that our policy decisions on matters like NAFTA are, to a great extent, being made in the dark, "The Government publishes no counts of U.S. plant closings and almost no information on plant relocations. No comprehensive Federal data are regularly published on how many plants have relocated to Mexico, where the plants have relocated from, what industries they are in, and how many U.S. jobs have been lost as a result."

That is why the CRS stated that our policy decisions on matters like NAFTA are, to a large extent, being made in the dark.

The Bureau of Labor Statistics fails to count and tabulate many of what are generally considered to be plant closings. This is because it uses a definition of a permanent plant closing to include only those closings which represent the final termination of the entire physical plant.

The way plant closings are counted, a plant closing would not be counted as a plant closing if an accounting or other office physically associated with the plant remains open, for instance. Just keep

one accounting office open in the plant, and it is not a closed plant even though 99 percent of the plant is gone.

By subscribing to private data and the news services, the Data Center, a non-profit public interest library and research center, compiles detailed monthly lists, entitled "Plant Shutdowns Directory," of hundreds of plant closings and layoffs affecting thousands of workers listed by company and location. The Data Center's "Plant Shutdowns Directory" includes such recent layoff announcements as Boeing in Southern California and Seattle, Dupont's Chemicals and Allied Products in Flint, Michigan, and Toledo, Ohio, and General Motors' 12 of 21 plants to be closed over the next 5 years, just to name a few. These specific plant closings will not be made public by the BLS data.

Today's hearing will show us that the Commerce Department has mischaracterized and misused export data, that some of our most basic assumptions used to project NAFTA-related job growth are flawed, and that some of our important information on changes in American employment is pitifully inadequate. And this is ominous news as we may soon face the important decision of whether or not to take the high-risk step of endorsing the North American Free Trade Agreement.

We are happy to welcome as our first panel two witnesses: Steve Beckman, international economist at United Auto Workers; and Kevin Kearns, president of the U.S. Business and Industrial Council. Welcome, gentlemen, and we will start with Mr. Kearns. We would ask you and all of our witnesses to boil down your testimony, because we are going to have to get a lot in this morning, and we have got to try to end this right at noon because we have a vote at noon. So we hope not to go beyond noon.

Would you begin, Mr. Kearns?

TESTIMONY OF KEVIN L. KEARNS,[1] PRESIDENT, UNITED STATES BUSINESS AND INDUSTRIAL COUNCIL

Mr. KEARNS. Thank you, Mr. Chairman.

I am not sure anyone here can add to what you already said. I think you have laid out the problems extremely well and extremely succinctly.

I'd like to begin by describing my membership. We represent over 1,000 small- and medium-sized businesses. We are a conservative business organization. In some sense, it is funny to see us here on a panel with my friend representing organized labor. But in this case, we both oppose the NAFTA, for very good reasons.

We simply don't think it is in the National interest; that is, not in the interest of labor, not in the interest of business, not in the interest of average citizens and taxpayers in this country.

The notion for small business is that there is an export boom going on, and that, small business is going to get in on this and they are going to be able to create new jobs and earn large profits.

But, in fact, as you have detailed, Mr. Chairman, much of the export activity going to Mexico, is activity that, until very recently, took place here in the United States. So my members really don't

[1] The prepared statement of Mr. Kearns appears on page 158.

gain anything by selling goods to a U.S. company affiliate in Mexico when they used to sell it to the same company in Michigan or Ohio or wherever.

Yes, in the export column those would show up as additional exports by my companies, but, in fact, on the domestic side, their domestic activity would decline accordingly. So there is really no gain for the U.S. economy and certainly no gain for small- and medium-sized business in supplying an affiliate plant south of the border.

I think we are in the grip of something I call export madness in this country today. You know, we have an awful lot of structural economic problems, and at least from the perspective of the Bush administration, exports were the way out. Exports were the wave of the future. Free trade ideology, which has a grip on the minds of both Republicans and Democrats in this town, says, exports create jobs and isn't that the way to grow our economy, isn't that the way we are all going to be better off?

But if we step back for a second and look, we have a $6 trillion economy in the United States. Merchandise exports represent less than 10 percent of that activity, and our exports to Mexico represent even a much smaller fraction of that, maybe 7 or 8 percent of overall U.S. economic activity. So it is a very small number we are talking about. Therefore, even if exports increase 10, 15, 20 percent, something dramatic, it really doesn't represent more than a drop in the bucket.

Certainly uniting our economy with an economy that is 4 percent our size is not going to provide the solution; it is not going to provide a high-wage, high-tech strategy for America of the future.

I think if you look at the experience that Europeans have had and the experience in Germany right now in melding economies, you will see that we are rushing pell-mell into something that we really know far too little about, as you pointed out in your opening statement, Mr. Chairman. The Europeans in integrating Spain, Portugal, and Greece into the European Economic Community have spent billions of dollars over a 10-year period trying to level some of the differences, and bring the poorer countries up to their standard.

West Germany, in absorbing East Germany, is spending hundreds of billions of dollars in this decade. It has thrown the German economy totally out of whack.

On January 1, 1994, we are supposed to rush pell-mell into this union with Mexico, and allegedly there are no subsidies, there are no problems, there are going to be increased exports, and long-term jobs for Americans. That simply defies the experience and the common sense that we have seen going on in Europe with the unions of these various countries into free trade types of agreements or areas.

You cited the problem of U.S. affiliates moving down to Mexico. The "Twin Plant Study Guide" which lists affiliates of U.S. firms has shown that about 2,200 U.S. factories have moved down to Mexico. It has cost us about a half a million jobs. These are jobs, this was export activity that took place inside our economy. Because of the fact that these plants are now operating in Mexico, those exports really shouldn't be counted as such.

I would like to turn to 1990, and there are some statistics there that are somewhat complete. If we take a look at this ITC publication—our exports in that year to Mexico were about $28 billion. About $7 billion of that was simply parts and components that went down and came back to the United States again. And on the Mexican side, there were about $30 billion of exports to the U.S. that year. The so-called 802 tariff classification—that is, goods that came from the U.S., had some assembly work done, and came back—represented a total of 43 percent of Mexico's exports to us. If you add in oil, these 802 goods plus oil were about 60 percent of Mexico's exports to the United States.

We don't have a good idea of whether or not the 802 captures all American exports down there because some firms, if there are relatively minor tariffs on products, find it is not worth the paperwork. They just go ahead and pay a small amount of duty. It might come in under GSP preferences or other preferences.

Another area where our data is incomplete in the remaining 40 percent of the goods that come through Mexico. We have no idea how much of those goods are intra-firm trade among Japanese, Korean, other Far Eastern companies who bring goods into Mexico, assemble them there, and ship them to the U.S. So, in fact, it is not really Mexican activity, but it is Japanese activity or Korean activity. And those statistics really should show up in our overall trade deficit with Japan, for instance.

Last year our trade deficit with Japan was $49 billion. It reached a high of $57 billion in 1987. But in 1987, the Japanese didn't have these plants in Mexico. They didn't have them in Southeast Asia where they are cycling their goods through into the U.S. economy. Our statistics don't capture that, Mr. Chairman, and they should to give us an accurate picture.

I think that there has been sort of the debate of the studies, and Carla Hills, when she was USTR, used to cite the Hufbauer and Schott work extensively about how many jobs were going to be created. I could provide an extensive critique of that. But I think the most telling critique was provided by those two gentlemen themselves in an article recently in the *New York Times* which reported that they had left out a key chart from their study. That chart showed that long-term job creation in the United States was not plus, as they had claimed, but actually slightly negative. So, in spite of maybe this alleged rush of exports, that we would see in the next few years, as we sent whole factories down to Mexico. We sent increased parts and components to come back to the United States, even if that did create some jobs in this rush to export capital goods, etc., over the long run the Mexican agreement did not have a good effect on U.S. jobs.

So the answer also is often offered of retraining; we will just retrain Americans if they are displaced, if they lose their jobs. I spoke recently in Flint, Michigan, which is your neck of the woods, Mr. Chairman, a couple of months ago, and the Buick plant is located there. There are many unemployed auto workers and managerial personnel as well.

There was a woman who was head of the retraining for the region, and I said, "What are you retraining these auto workers

for? They make very good hourly wages. They have extensive benefits. How are they moving up the job scale?"

And she said, "Well, it kind of breaks down by gender. Sixty percent of the men are retraining to be cable TV installers, and over 60 percent of the women are retraining to be beauticians."

Now, I have nothing against beauticians; I have nothing against cable TV installers. But I can tell you this is not a strategy for a high-tech, high-wage, high-standard-of-living society in the United States. And if we are going to have retraining, we had better have some industries there to retrain people for. The industries had better not be exported to Mexico.

In closing, Mr. Chairman, I would like to paraphrase the somewhat inelegant words of James Carville, the President's political adviser, that he uttered during the campaign. And I would say, "It's the American market, stupid." That is the key. The American market is the thing that we have to worry about. We don't look at the net effect or net exports or the effect of imports in our economy. We have no good statistics. The Commerce Department can tell you that exports create 20,000 jobs per $1 billion worth of exports. But since we have run persistent trade deficits for some time now, Mr. Chairman, imports have destroyed thousands of jobs in the United States.

If you take a look at the trade deficit last year and use the 20,000-job figure for $1 billion of exports, our imports, the net effect of exports and imports is that we lost 1.5 million jobs in this country through international trade.

So we really have to balance these things. We have to balance our American market. We don't have a very good trade policy overall. We hamper our businesses, especially our small businesses which can't move to Mexico, with excessive regulation, taxation, etc.

If you are raising taxes on business, putting in new regulations, and you are sort of winking at the transnationals and saying you guys can go down to Mexico to get away with this through NAFTA. It is my members, the small businesses, that have to stay and make up the bulk of the tax payments, etc.

So in terms of what we need, we need a much more comprehensive effort on data. We need to know what is the net effect of imports and exports, international trade on our society. We need to know what subsidies are involved in the NAFTA and who is going to pay them, and you know the answer is the American taxpayer.

We need an assessment of job dislocation, and we need it now, not after we go into the NAFTA. We need these things before we go in so the American people and their representatives can make an intelligent decision on the NAFTA.

I think that when we have this information and we take a good look at it, Mr. Chairman, we will realize not that any NAFTA is bad for the United States, but certainly this one, the way it stands, the way it has been negotiated, is not in the National interest of this country.

Thank you, Mr. Chairman.

Senator LEVIN. Mr. Kearns, thank you.

Mr. Beckman?

TESTIMONY OF STEVE BECKMAN,[1] INTERNATIONAL ECONOMIST, UNITED AUTO WORKERS

Mr. BECKMAN. Thank you, Mr. Chairman. I thank you for holding this hearing and inviting us. This is a vital topic that is generally left out of the debate of the NAFTA. The issues of data are extremely important, and the lack of comprehensive, useful data is particularly problematic.

I am going to focus my remarks on the area of U.S. exports and their impact on the U.S. economy, and particularly on the auto industry. That is an area where we have some experience, and I think it is a useful experience in discussing the misleading representation of what U.S. exports to Mexico have meant to the U.S. economy in recent years and what NAFTA would provide to the U.S. economy.

First, as a union, representing workers who have in the past benefited substantially from U.S. exports around the world because we make a tremendous amount of capital goods in addition to motor vehicles and other products, we benefited tremendously from exports to Mexico in the 1960's, 1970's, as that economy grew and prospered.

However, since the debt crisis in 1982, those exports have diminished substantially, and we have noticed that in our membership and in the communities in which our members live.

On the other hand, the exports that have been growing to Mexico in recent years, as opposed to the earlier capital goods of heavy construction machinery and farm equipment that we had been sending to Mexico, the auto parts and other components that we are now sending to Mexico are not used and consumed in the Mexican market. They are shipped back to the United States market after they are processed or assembled in Mexico.

These jobs are not new jobs. These workers have been supplying these products for assembly for consumption in the United States for many years. The only thing that has changed is the site of that processing, and once that site moves to Mexico, the production becomes production for export. Even though it does not create increased consumption in Mexico, it does not reflect an enlargement of the market for these goods that are produced. It is a misleading representation to describe this as a gain in U.S. production and a gain in U.S. employment because of exports. The exports do not contribute to U.S. jobs.

In the auto industry, much of these exports go to the maquiladora plants, which are largely just assembly plants, but there are other products that go to other assembly plants in Mexico that are not maquiladoras and wouldn't necessarily be reflected in the data that the U.S. Government compiles on maquiladora trade. Some of it would not be reflected in the 9802 trade figures that the ITC has published. And in each of these cases, the jobs in Mexico were jobs that were formerly done in the United States, the assembly of a variety of motor vehicle models: Ford Escorts, Chrysler LeBarons, Chevrolet Cavaliers, Buick Centuries. These are products many of which are still made in some measure in the United States but are

[1] The prepared statement of Mr. Beckman appears on page 168.

also made in Mexico and shipped back to the United States for sale. They are not sold in Mexico. So the parts that are shipped to Mexico, assembled into these vehicles, come back to the United States in assembled vehicles. So the jobs in building those parts are not new jobs. They are jobs that we had anyway. And the jobs we have lost in assembly are important American jobs that pay decent wages in the United States, which we have lost.

Now, in this trade, the main element of the Mexican payments—and some of this is reflected in the maquiladora data and other data—the main payments are for labor, payments to workers for doing the processing, doing the assembly in Mexico. And the value of this labor content in Mexico, if you look at the value-added statistics from the maquiladora trade, is somewhere on the order of $4 to $7 billion a year.

Now, that sounds like a lot of purchasing power that Mexicans may have that they wouldn't otherwise have without these plants, but consider what the loss is to the U.S. economy. In the auto industry, maquiladora workers earn something on the order of one-twentieth of what UAW Big Three workers earn in total compensation. So if, as may be the case, about 25 percent of maquiladora employment is in auto sector production, if, say, the total was $5 billion and $1 billion of that total value-added in Mexico is payments to workers, then the loss to the U.S. economy is not $1 billion. It is 20 times that. We are losing tremendous purchasing power in the United States by moving those jobs to Mexico for that assembly. The communities in the United States where those jobs were formerly held and where that production formerly took place have suffered a severe loss in income. And that is something that is not being replaced by other economic development in the United States, is not being replaced by other production of high-quality, high-technology goods in the United States. The workers who are displaced are finding jobs that pay far less than those they have now, and as Kevin Kearns has stated, the retraining that is going on is not even remotely likely to produce incomes for those workers that are comparable to what they have now.

One other point I would like to make is that the overall discussion of what the relative rates of productivity are in the United States and Mexico and that wages somehow correspond to this differential in productivity is not a very useful way to think about what trade between the United States and Mexico means and what its impact is on the U.S. economy. In general, the relationship in wages between the United States and Mexico is somewhere between 7 to 1 and 10 to 1, and there is a presumption in most of the models that are built and the analyses that are made that this reflects the relative productivity levels of the two countries.

In the auto industry, as I said, the wage differential can be as large as 20 to 1, not 7 or 10 to 1, and in many plants where new investments have been made by U.S. companies, by foreign companies, there is relatively little differential in productivity at all. So the analyses that say we don't have to worry about Mexico becoming a major competitor and source of competition in production for the U.S. market because the rates of productivity are so low, that is why the wages are so low, is just not an applicable argument or analysis for the auto industry.

That productivity differential in the new plants, particularly those have been built in the last 10 years, is simply not there. And as a result, the wage differential, which is larger than the average, is a much more compelling argument for employers to move work to Mexico to take advantage of the poverty of Mexican workers.

I would add that in 1981, the ratio of wages in the United States to wages in Mexico in the auto industry was about 3 to 1, far below what the overall average is in Mexico now and far below what the ratio is for the auto industry now. And that was maybe a fairly accurate reflection of the overall productivity differential in the industry, and that was before Mexico's emphasis on export promotion in the auto industry, its attraction of many new investments in the industry, not just for the U.S. Big Three companies building maquiladora plants on the border, but for Volkswagen and Nissan who have put in tremendous investments in Mexico. U.S. companies have built engine plants and remodeled and added to engine plants that they have built in Mexico, utilizing the latest technologies. That differential in productivity is far lower now than it was in 1982, and yet the wage gap has increased.

Some explanation for this has to be made. Some way of accounting for this in the analyses of what NAFTA means for the U.S. economy and for American auto workers has to be taken into account.

The impact of this on auto workers, on workers in the communities in the United States, is that they are under intense pressure from their employers to accept lower wages in order to compete internationally, particularly with Mexico. And until that kind of competition to lower wages in high-technology, high-productivity industries in the United States is eliminated, there will be no basis for developing and fostering those high-technology industries in this country. And that is exactly the problem we are facing. We have been losing those jobs in recent years. And if we are going to maintain and improve living standards in the United States, we not only have to retain those jobs, but expand on them, in order to accomplish an objective that makes everyone in the United States better off, not just our members.

So with that, I would close. Again, thank you for providing this opportunity.

Senator LEVIN. Thank you, Mr. Beckman. Both of your statements will be made part of the record in full, as will all statements of all witnesses here. We do appreciate your boiling down those statements. It leaves more time for questions, and we are grateful for that.

Who gains by describing exports as unmitigated job creators? Why is that myth perpetrated here? Obviously, some exports are job creators, but some exports aren't job creators. To lump them together, to say here is your exports to Mexico or wherever, therefore 20,000 jobs per $1 billion of exports are created is erroneous. It is a distortion; it is a misrepresentation of the facts.

Who gains by that misrepresentation?

Mr. KEARNS. Well, Mr. Chairman, I think this goes back to this export madness that I was describing; that is, perhaps the free trade philosophy has been that Government cannot interfere in our economy, it only serves as a referee, it has to have hands off, we

can't have a technology policy for the country, we can't engage in any sort of industrial policy, etc. And, therefore, we really can't control what goes on in our own marketplace. We shouldn't address dumping by foreign nations. We really shouldn't look at what is coming into our economy.

So we are left with sort of a fallback position. The only way that Government can stimulate economic growth, the only legitimate function of Government is to go out and negotiate free trade agreements because by definition, free trade agreements create more exports and exports are good, and this is the only way we can grow our economy.

So I think it is really a sort of ideological bind that we find ourselves in because of our neoclassical economic models and general thinking among economists, academics, in the press, in Government, that free trade is really the mantra.

And, in fact, if we took a more discriminating look at things, if we didn't fear knowledge and say, well, maybe there is a role for Government here and there, not a heavy-handed role, not a Stalinist centrally directed economy, but Government pressure here and there to shape the economy and to make sure that we are not losing industries due to unfair foreign competition, etc. Then we would look at exports; we would look at imports; we would have a range of policies to deal with this that made sense.

Right now, as you have described in your opening statement, we are kidding ourselves, and we are misleading the American people by counting apples and oranges.

Senator LEVIN. Mr. Beckman, who gains by the way in which we look at exports and the allegation that exports equal jobs gained? Who are the winners in that?

Mr. BECKMAN. Well, particularly in reference to the U.S.-Mexico trading relationship, since what is going on is a process of economic integration with Mexico, led by multinational U.S. corporations, they are going to be increasing their investments in Mexico. They have already done so on a significant scale. They intend to do so in the future when Mexico's laws regarding foreign investors are further liberalized and enshrined in an agreement.

Increased investment in Mexico will generate some exports of capital goods to Mexico. So the companies that want to do this, that want to integrate their operations throughout the region, want to increase investment in Mexico, know that there will be some increase in exports along with this process. They also know that there is going to be an increase in imports back to the United States, but people know that that is not going to be good for the country, necessarily. But they do know that exports are going to go up.

As Kevin said, since there is this mentality that increased exports have to take place because we have such a large deficit, because we need to expand our markets, they know that that sells well, and they can use the numbers that are out there from the Commerce Department on the jobs created by exports. So they know that there is going to be a benefit there as they integrate their facilities in Mexico, existing facilities, and add to their Mexican facilities in order to integrate them with their existing U.S. facilities.

Also, the economic integration process will, as has been demonstrated in the maquiladoras, result in some componentry being shipped to Mexico for further processing for sale in the U.S. market. The companies that are involved in this economic integration process have some U.S. facilities where they have state-of-the-art production capability which they may not be interested in duplicating in Mexico, but they want to be able to take advantage of either processing in Mexico or some other operation that they want to perform there and ship back to the United States. They know that is going to contribute to increased U.S. exports.

Again, they know it is going to contribute to U.S. imports as well, but that doesn't serve their purposes. So in order to demonstrate the benefits to the U.S. economy of doing more production in Mexico, they focus solely on the export argument rather than looking at the overall trade impact or the overall economic impact. It suits their interest in describing this as positive. Unless Members of Congress or people such as you, Mr. Chairman, talk about the other side of the trade equation of imports, talk about the impact of this misrepresentation of the data as the sole area of discussion, they will be able to limit the public debate to exports, and they will be able to use their definition of improvement as the one that is used to define whether this is a plus or a minus for the U.S. economy.

It is a much more complicated issue than most people are aware of, most people want to address, and that suits the interests of people who have access to the levers in Government, who have had access to editorial writers, and I think it is a serious problem that the U.S. economy has to deal with.

Mr. KEARNS. May I just add one word, Mr. Chairman?

Senator LEVIN. Sure.

Mr. KEARNS. I think it is the transnational businesses or multinational American companies that benefit the most from this.

Senator LEVIN. That want to move operations to Mexico?

Mr. KEARNS. They want to move their plants to Mexico, yes.

Senator LEVIN. I mean, the bottom line is that the use of the figures in this way benefits, according to your testimony, companies that want to move their operations to Mexico.

Mr. KEARNS. Well, assuming that the NAFTA would go through and those figures are used to create a climate of favorable public opinion for the NAFTA.

I think the other thing you have to look at is, too often in this country our trade policy—and, of course, NAFTA is a part of our trade policy—is conducted in isolation from other elements of policy: taxation, regulation, etc. We don't have a good trade policy overall. We don't have, certainly, one with Japan, and that is where the auto industry, the American electronics industry, what is left of it, are forced to move to Mexico. Why? To lower labor costs. Why? Because they want to compete in a global marketplace with Japanese auto companies, Japanese electronics companies, etc.

The problem, then, is to look at our overall economy and how we create a sound climate for business in this economy so they can stay here, remain here. You don't want to say we are prohibiting you from—or we are not going to go through with NAFTA, you

really can't move to Mexico, or do so at your own risk, and then ratchet up taxation, regulation, etc., where the competing Japanese company doesn't face the same level of taxation or doesn't face the same level of regulation, etc.

So I just wanted to step back, in a sense, and put it in the overall context that transnational businesses, although I don't represent them, in some senses are making rational decisions based on the overall business climate in the United States.

Senator LEVIN. Rational decisions in terms of their own business' profitability.

Mr. KEARNS. Yes. That is right.

Senator LEVIN. But not decisions which will help the American economy or produce good-paying jobs in America. I can understand the difference here between what is in the interest of a company, a rational decision for a company, and what the result of those rational decisions is for our economy or our country. And that is the distinction you are making, too, I believe.

Mr. KEARNS. Sure, yes. But I would have to go back and say, you know, the business of America is still largely business, and we have to create—of the many factors that they consider in deciding whether or not to move to Mexico, they are not simply all export or trade factors. A lot of them are factors here, cost of capital, etc.

Senator LEVIN. Yes, sure. The use of this data really creates a problem. This is used constantly to prove that exports create jobs and, look, exports are growing. It is one-half of the picture. It is only the export side. We don't see the import side. That is a different picture altogether, not presented to us by the Commerce Department. We get the export side, and the export side is Michigan's exports grew 51 percent, and then State-by-State, every State, exports grow by a certain percentage point. And then it is represented to us that exports, $1 billion of exports equal 20,000 jobs.

Then our Governors go around and make representations and support NAFTA because, hey, look, if we can increase exports to Mexico, we are going to have more jobs in our State. And they base it directly on this data, by the way. I mean, we actually have a document here that Governor of Michigan distributed, and the first point he is arguing in terms of why NAFTA is good, comes right from this book. This is the point paper.

Point 1: Michigan exports to Mexico have grown by 51 percent in the last 5 years. Where does that come from? It comes from that headline in the Department of Commerce book. Michigan's exports to Mexico grew 51 percent from 1987 to 1991.

Then the second point: Today, over 31,000 Michigan jobs depends on exports to Mexico. Where does that come from? It comes from the Commerce Department formula that for every $1 billion of exports we get 20,000 jobs.

That is the equation which has been delivered to the people of the United States and to our Governors and which they utilize in figuring that NAFTA will be good.

It is a distortion for reasons which you have given and I have given today, because a lot of those exports do not represent job gain, they represent job loss in a number of categories.

Have you made an effort with the Department of Commerce, either of you or your organizations, to get them to divide exports

into two categories: exports which promote jobs and produce jobs in America and exports which reflect a loss of jobs or which are not job-creation exports? Has any effort been made with the Department of Commerce?

Mr. KEARNS. Well, I can only speak for myself, Mr. Chairman, but I have been working on this area, on the NAFTA and on trade in general, for a number of years now and made multiple phone calls over that time to the Commerce Department, seeking data and then making suggestions when I found that data was not available in a usable form.

"The U.S. Jobs Supported by Merchandise Exports," in general and to Mexico, I have spoken on repeated occasions with the author of that study. I said, well, if 20,000 jobs are gained by $1 billion of exports—and they have a very allegedly sophisticated model out at the University of Maryland that he works with—what is the figure for imports? Because there are two things missing from the study you just held up, and how many of those Michigan jobs allegedly created by exports existed previously because the economic activity took place inside the United States? And, secondly, what is the effect of imports—in Michigan, it is generally going to be automobile activity. What is the effect of foreign imports on Michigan's job base? And none of that material is in there. So it is not as though people in Government are not aware of this problem, but they simply have not addressed it.

The other point I would make, Mr. Chairman, is that the statistical gathering is scattered all over various Government agencies. The Internal Revenue Service has an awful lot of information about corporate taxpayers, etc.; their activity, intra-firm trade, transfer pricing, all these problems. The Customs Service has a whole bunch of information. The Department of Commerce and its subdivision, the Bureau of Census, have an awful lot of information.

There is no standard procedure for sharing this information. You know, employees of these organizations often are reluctant for bureaucratic reasons or sometimes there are legislative reasons why there are restrictions on sharing information. But we need to break down those walls and stop having our various executive branch agencies act as though they are in competition with one another or they have their own fiefdoms, and let's get an accurate picture.

We probably need some new legislation to do that, Mr. Chairman, but I think we should pursue that.

Senator LEVIN. Your point is an important one. Before I call on Mr. Beckman for his comment about whether an effort has been made with the Department of Commerce to show to them the distortion which they are perpetrating when they simply equate exports with jobs without differentiation between job-creating exports—and there are some of those—and exports which do not reflect job creation.

There are at least two distortions, and it is important that you pointed them out. One is they have totally left out the import half of the picture. So even if there is a direct equation between exports and jobs, then there is a direct equation between imports and lost jobs, and they leave out that half, which in many cases, in many States, is far worse. You come up with a net loss.

Mr. KEARNS. That is right.

Senator LEVIN. That is a distortion. The subject of this morning's discussion is really a second distortion, and that is, that even within the export figures, even if you just look at half the picture, that half is distorted.

Now, my question, which you have just addressed, Mr. Kearns, to Mr. Beckman is this: Have you made an effort with the Department of Commerce to try to point out to them that this book is a distortion because it assumes that exports equal jobs when a significant percentage of exports—we are not talking here about 1 or 2 percent, like maquiladoras is 39 percent of our trade—with Mexico—this is a big chunk of the trade. When a significant part of our exports to Mexico that are listed in here as exports and then translated into jobs are, in fact, not job creators, reflect loss of jobs? Have you made the effort, has the UAW made the effort with the Department of Commerce to try to persuade them that that is a distortion even of the true export picture?

Mr. BECKMAN. I haven't been in direct contact with the people in the Commerce Department responsible for collecting the data or preparing it for reports. I have, in many meetings and on many occasions, told the Commerce Department officials who have used that information to promote the misrepresentation or misunderstanding that all those jobs are, in fact, new jobs or additional jobs, I have pointed out many times to them that that is not the case, that, in fact, simply shifting the location of assembly does not create jobs, that, in fact, it results in a diminution of the number of American jobs.

They have largely shaken their heads, yes, I understand your point, but in the past, at least, they have been driven by an ideological commitment and a political commitment to making this sound good. And they have not been particularly responsive to those arguments. I don't know whether there is a different view at the Commerce Department now, and we certainly will pursue that.

But I have also made this point directly to representatives of the State of Michigan, and I have made this point several times a couple of years ago at a hearing in the State of Michigan of a congressional committee and in another meeting where a representative of the State's Department of Commerce was present.

They are well aware that these numbers are misleading. They can make no claim that they have not heard, have not been exposed to criticism of the use of these numbers to describe all exports to Mexico or to anyplace else as in and of themselves job creating. They have simply not responded.

Senator LEVIN. It would be useful, I think, to make that effort with the new administration's Department of Commerce. And if you haven't directly made it, I would urge you to do so. We have, and we will continue to do so. But I think it is important that it comes from grass-roots people as well, and we would be interested not only in, if you do make that approach, copies of your requests for meetings and your points, but also the responses that you might get so that we can make them part of the record.

Our Trade Representative yesterday made this statement—I am not asking you for a comment. I am going to have to wind up this panel. But it says, "Mickey Kantor departed from a speech on

trade with Russia to underscore the importance of NAFTA to increasing American jobs. He said that 'Exports to Mexico are responsible for 700,000 U.S. jobs today, and that figure will grow to 900,000 in 2 years.' It is just a direct equation, and it is based on this: exports equal jobs.'''

And we have got to make an effort, if we are going to be honest, with ourselves and honestly assess this, to make a distinction between the exports which, in fact, are true job creators and those which reflect job loss, or don't create jobs at all.

For our Trade Representative to simply make that equation that exports equal jobs is to not only ignore the effect of imports totally, but is also based on a misrepresentation of export data which I think we have to try to correct if we are going to get an honest assessment of the whole picture. And your testimony in that regard is extremely helpful, I appreciate it a great deal, and we will now move on to the second panel.

I would appreciate your also keeping our Subcommittee informed of any efforts with the Department of Commerce to correct this distortion.

Mr. KEARNS. Thank you, Mr. Chairman.

Mr. BECKMAN. Thank you.

Senator LEVIN. We thank you both.

We are now happy to call our second panel: Mr. Charles Waite, Associate Director for Economic Programs at the Bureau of the Census, and Mr. Allan Mendelowitz, Director of International Trade and Finance Issues at the U.S. General Accounting Office. We appreciate your being here.

Mr. Mendelowitz, did I pronounce your name correctly?

Mr. MENDELOWITZ. Absolutely. You are one of the few.

Senator LEVIN. Well, I am well briefed by staff.

Mr. Waite, let's start with you.

TESTIMONY OF CHARLES A. WAITE,[1] ASSOCIATE DIRECTOR FOR ECONOMIC PROGRAMS, BUREAU OF THE CENSUS, U.S. DEPARTMENT OF COMMERCE

Mr. WAITE. Well, thank you, Mr. Chairman. It is a pleasure to be here today to discuss in general the U.S. trade numbers, and in particular, as they pertain to U.S.-Mexico trade.

Senator LEVIN. Again, if you don't mind my interruption, I would appreciate both of you boiling down your testimony, though your entire testimony will be made part of the record.

Mr. WAITE. Well, Mr. Chairman, I was just going to add that I was born, raised, and educated in the State of Michigan from the Upper Peninsula——

Senator LEVIN. Don't leave that out.

Mr. WAITE. We are used to boiling things down up there, you know. [Laughter.]

I will summarize today my comments, focusing on the merchandise trade data which are produced by the Bureau of the Census and measure the flow of goods into and out of the United States.

[1] The prepared statement of Mr. Waite appears on page 176.

In recent years, merchandise trade statistics have become a closely watched indicator of U.S. economic activity. In the years between 1982 and 1992, total merchandise trade more than doubled to just under $1 trillion annually. Exports in 1992 accounted for 7.5 percent of GDP, imports for 9 percent.

As has been noted, our third largest trading partner is Mexico, U.S. exports to Mexico approximately $41 billion in 1992, 9 percent of total exports. We imported $35 billion, about 6.5 percent of total imports.

The compelling strength of our trade data is that, unlike most other U.S. economic statistics, the monthly merchandise trade statistics represent a tabulation of individual shipment information that is legally required by the U.S. Customs Service. This allows us to provide much more detailed data than would be possible through a sample survey with which most of our other economic statistics are provided.

The Census Bureau processes over 2 million import and export transactions received from Customs each month. The resulting trade statistics are among the most detailed economic information available, providing every month 14,000 import and 8,000 export commodity categories for trade with over 200 trading partners.

We have a lot of customers for these data. They are widely used by Government policymakers, economic analysts, private businesses. The use and close scrutiny of the data is evident in newspaper and magazine articles which appear almost daily and is reflected in the hundreds and hundreds of requests that we receive at the Census Bureau every month.

Now, while our import statistics are judged to be complete, there is under-reporting of exports. This problem is not unique to the United States. Worldwide imports, because of enforcement of tariffs and quotas, are more complete and accurate than export data.

Studies done at the Census Bureau with Japan and the European Community show our exports for these partners to be understated by approximately 3 percent.

Now, the Census Bureau, with the assistance and cooperation of Customs, continues to conduct a number of programs to evaluate and improve the quality of the trade statistics. In fact, over the past few years, the trade numbers may be the most improved among U.S. economic indicators. We have virtually eliminated carryover.

Not many years ago, Mr. Chairman, you did not even know the correct month that an import was recorded in. That has been fixed. We have converted from an old obsolete classification system to the new international Harmonized System of classification, consistent with our major trading partners.

We have expanded the automation of both the collection and dissemination of trade data. As we speak, about 93 percent of import transactions are collected electronically. The comparable number for exports is about 50 percent.

For the longer-term view, the Census Bureau and Customs, aided by a few other agencies, funded a study by the National Research Council of the National Academy of Sciences to identify ways that trade data could be further improved. We have closely evaluated

the recommendations, which we received about a year ago, and have adopted a number of them.

There were no recommendations on Mexico or maquiladora trade in that study. But, for example, the things we have done, we have expanded our exporter education program, designed to identify and contact those exporters responsible for reporting errors. Under this program, we have returned thousands of faulty export documents with instructions on how to report correctly. This effort has resulted in a 20 percent reduction in the rate of errors among those exporters.

In addition, we have extended our trade data reconciliation studies, already cited for Japan and the European Community, to other major trading partners such as Korea and Australia. In these studies, we investigate the differences in the bilateral data in order to evaluate the quality of our statistics and identify areas for improvement.

Our statistics for trade with Mexico share the general strengths and the weaknesses discussed earlier. Import data are complete and accurate. There is under-reporting of exports. Because of the difficulties Customs faces in monitoring overland shipments, the under-reporting of exports to Mexico is probably somewhat higher than for other trading partners. To improve the statistics, we are concentrating many of our education efforts along the Mexican border, and we have initiated a bilateral trade data reconciliation study with Mexico.

Now, a number of the questions of the Subcommittee dealt with maquiladora trade, parts and capital equipment exported and imported to these maquiladora plants. I have provided detailed answers to those questions in my written testimony.

In summary, however, these transactions, the exports now to maquiladoras, are included although not specifically identified in the export statistics. And although some data are available separating the value in our import statistics of U.S. and foreign components, these are not all inclusive. Companies are not required to identify U.S. components incorporated in imports from Mexico.

Finally, the trade statistics provide no information on what parts are now shipped to Mexico for assembly that in prior years would have been assembled in the United States.

With regard to dissemination, the trade data, whether for trade with Mexico or any other partner, are readily available in a variety of formats, including our increasingly popular CD ROM disks, in a varying degree of detail. Data are available at the Census Bureau, the Government Printing Office, Federal libraries and so forth.

Mr. Chairman, the Census Bureau is committed to producing accurate, timely trade statistics to meet the needs of a wide variety of users and to continue to upgrade our data collection procedures as well as our finished products. I will note the report you cite with Mexico is not a Census Bureau report. It relies on information with regard to exports that were not compiled at the Census Bureau.

Just on another personal note, back in 1962 in the Kennedy administration, the Trade Expansion Act of 1962, when I was employed at the Bureau of Labor Statistics, we did a study on jobs owed and jobs lost to that Trade Expansion Act of 1962. In other

words, the same techniques that are used to measure jobs owed to exports can be applied to jobs lost to imports.

That concludes my testimony. I hope I have been brief. I would be happy to answer any questions.

Senator LEVIN. Thank you.

Mr. Mendelowitz?

TESTIMONY OF ALLAN I. MENDELOWITZ,[1] DIRECTOR, INTERNATIONAL TRADE, FINANCE, AND COMPETITIVENESS ISSUES, GENERAL GOVERNMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE

Mr. MENDELOWITZ. Mr. Chairman, I will be more than happy to read a considerably abbreviated statement and submit the full statement for the record.

Senator LEVIN. Thank you.

Mr. MENDELOWITZ. I am pleased to be here today to testify on the quality of U.S. trade data. My statement focuses on the limitations of trade data in general and on the specific limitations we encountered in our work on U.S.-Mexico trade issues, particularly on the maquiladora program.

The Federal Government had long suspected that U.S. exports have been undercounted. However, it was not until 1971, when the United States and Canada agreed to conduct an annual reconciliation of their trade data, that the extent of this problem was discovered. The reconciliation showed that reported U.S. exports to Canada were much less than recorded Canadian imports from the United States. By 1986, the discrepancy was up to $11.5 billion, or 20 percent of the reported northbound trade between the United States and Canada.

Other studies have shown that this problem is not limited to exports to Canada. For example, in 1989 the Census Bureau found that $6.7 billion of exports through airports were not included in U.S. trade statistics because exporters or their agents had failed to file export documents. This amount was equivalent to about 7 percent of the value of merchandise the United States was reported to have exported by air in 1988. Also, a 1992 study by the National Research Council estimated that in recent years the United States had exported from $10 to $20 billion more than reported.

Efforts are under way to improve the quality of U.S. trade data, including bilateral reconciliation efforts with a number of countries, including Mexico, Japan, the European Community.

With respect to trade with Mexico, according to Census officials, U.S. trade data probably undercount U.S. exports to Mexico. In addition, it is hard to get a complete picture of U.S.-Mexico trade from the data.

For example, U.S. trade statistics do not distinguish U.S. trade with Mexico's maquiladora industry from other trade with Mexico. Also, it is difficult to use the data to unravel linkages between exports to Mexico of parts and components and imports to the United States of related items. The exports may leave the United States

[1] The prepared statement of Mr. Mendelowitz appears on page 184.

under one tariff classification, and the item made from the parts and components may return under a different tariff classification.

A significant portion of U.S. trade with Mexico, in fact, is done with firms in the maquiladora program, and neither U.S. export nor import data directly measure U.S. trade with maquiladoras because U.S. import and export documents do not require traders to identify whether they participate in the maquiladora program. The maquiladora program is a Mexican Government program and the U.S. Government's trade data system is not designed to collect information on U.S. companies that participate in foreign government programs.

So, for our report to Majority Leader Gephardt on U.S.-Mexico trade, we relied on data on maquiladoras that we received from the Banco de Mexico. According to that data, in 1991, 31.8 percent of Mexican imports from the United States went to maquiladoras, and in the same year, 46.3 percent of Mexican exports to the United States came from maquiladoras.

U.S. trade with maquiladoras cannot be measured directly from U.S. trade data. However, U.S. statistics can be used to measure imports that enter the United States from Mexico under production-sharing arrangements. Under these arrangements, certain products assembled in foreign countries from U.S.-made components are only subject to duties on the value added in the foreign country; that is, on the residual, or the total value of the imported product minus the value of the U.S.-made components.

Imports from Mexico under these arrangements can be used to estimate U.S. imports from maquiladora firms because there are indications that a large proportion of these imports are from maquiladoras. Further, because most U.S. exports to maquiladora companies are then returned from the maquiladoras as exports to the United States, the portion of the production-sharing imports from Mexico that does not have duties—that is, that which originated in the United States—can be used to estimate U.S. exports to maquiladoras.

U.S. trade statistics also do not capture other aspects of maquiladora trade. In some cases, items the United States exports to the maquiladoras under one HTS classification may, after assembly, return to the United States under a different classification. For example, electronic wire exported from the United States to maquiladoras can be returned to the United States as automotive parts. These factors limit analysts' ability to directly link trade with maquiladoras using the U.S. trade data.

The issue of maquiladora data could, however, become a moot question. If the North American Free Trade Agreement is ratified, the Mexican Government is expected to terminate the maquiladora program within 7 years since the tariff advantages of maquiladora operations will be sharply reduced.

However, if NAFTA is implemented, it may be more difficult to collect accurate data because Customs may have fewer reasons to closely monitor the collection of this information. The U.S.-Canada Free Trade Agreement, which went into effect at the beginning of 1989, calls for the elimination of all tariffs between the two countries by 1998. Likewise, NAFTA, if ratified by the United States,

Canada, and Mexico, will phase out tariffs over 15 years on trade between the three nations.

Census officials and others in the statistical and trade communities believe that the elimination of duties by the free trade agreements would reduce the reasons for Customs to assure that import data are accurately filed by importers. This situation could then adversely affect the quality of data needed to assess the impact of NAFTA, if ratified.

Mr. Chairman, this concludes my oral comments, and I, of course, will be happy to try to respond to any questions you might have.

Senator LEVIN. Thank you, Mr. Mendelowitz.

First, Mr. Waite, let me go through some items with you and ask you whether or not the data that I am asking about is included in exports. Are all parts, sub-assemblies, and supplies shipped from the United States to maquiladoras in Mexico included in U.S. export data?

Mr. WAITE. They are included, but they are not separately identified as going to maquiladora.

Senator LEVIN. Now, you have made a point in your testimony and just now that, while included, they are not identified.

Mr. WAITE. That is correct.

Senator LEVIN. And that is a very important point, because—well, let me ask you rather than stating the answer. What difference does it make whether it goes to a maquiladora or not? Why would it be helpful to identify that data?

Mr. WAITE. Well, Senator, to the extent, I suppose, that the maquiladora comes back to the United States. On the other hand, exports to other parts of Mexico, other countries, may, in fact, be remanufactured, assembled, and come back to the United States. So my answer, I guess, would be let's not pick on the maquiladoras, let's look at everything. If we want to obtain this information, it is certainly possible to modify regulations to obtain it.

Senator LEVIN. Is maquiladora trade like other trade with Mexico?

Mr. WAITE. The question, I suppose, is whether trade going to maquiladora, is coming back to the United States or is being exported to other countries. There are other——

Senator LEVIN. Ninety-nine percent, we understand, of the——

Mr. WAITE. Yes.

Senator LEVIN [continuing]. Exports to maquiladoras, listed as exports, comes back to the United States as imports.

Mr. WAITE. Yes, or going for final consumption in Mexico.

Senator LEVIN. My understanding is 99 percent of the exports to the maquiladoras, listed as exports, comes back—excuse me. Ninety-nine percent of the exports from maquiladoras comes to the United States. Is that your understanding?

Mr. WAITE. I don't have that statistic, but that could well be.

Senator LEVIN. Well, let me just get to the bottom line. Do you believe the maquiladora trade is different from other exports to Mexico which are consumed in Mexico?

Mr. WAITE. I think there is a distinction between final consumption, goods going to Mexico for final consumption, and those that

go to Mexico that are re-exported, whether to the United States or anywhere else.

Senator LEVIN. What is the distinction? Why is that an important distinction?

Mr. WAITE. I suppose it has to do with the fact that the goods may be in competition with U.S. goods that are produced within the United States. On the other hand, goods may be—for example, the Japanese are there. Other foreign countries are there as well. Goods are flowing to those countries, too.

So I could quite understand a separate identification of those data. Certainly we would not oppose that.

Senator LEVIN. Mr. Mendelowitz, is maquiladora trade like other trade with Mexico?

Mr. MENDELOWITZ. No. I think it is quite clear that maquiladora trade is a different type of trade, and the Mexican Government explicitly recognizes that because the Mexican Government, in its official import and export statistics, does not include maquiladora trade.

The Mexican Government records in its service sector trade the value added that the maquiladoras add to the parts and components they import and then re-export.

So, for example, in 1991, according to the statistics received from the Banco de Mexico, maquiladoras imported from the United States about $11.7 billion of goods and then re-exported about $15.8 billion for a net value added of about $4.2 billion. So rather than reporting total imports and total exports, the Mexican trade statistics include in the category called Servicios por Transformacion, the $4.1 billion in value added that the maquiladoras provided.

Senator LEVIN. Now, you say that maquiladora trade is different. Is it not different in terms of job creation? Is that not the bottom line, that when we export something to another country to be consumed there, that that is different in terms of job creation here, and when we send something to another country to be processed there and then return here for consumption? Would you agree with that?

Mr. MENDELOWITZ. I think that the issue of whether trade is job creating or not is probably one of the most complex issues that you can raise. For example, you have been citing the 20,000-job figure that is generally associated with $1 billion in exports, that 20,000-job figure is really a rule of thumb that lets you understand on average the relationship between exports and employment in this country.

I don't think it is a figure that you can apply in any detailed specific industry study and claim that if we export $1 billion to a particular industry in a particular country that that automatically means there are 20,000 jobs——

Senator LEVIN. Well, let me get back to the maquiladoras. The maquiladora trade you say is different.

Mr. MENDELOWITZ. That is right.

Senator LEVIN. All right. Let me just start with that. We don't have maquiladora trade, that I know of, with any other country except Mexico in that significant degree. That is an unusual situation where about one-third of our exports to Mexico is actually immediately or promptly shipped right back here for consumption.

Should the same job creation figure then be applied in that situation as it is in situations where we export to Europe? Should the same average be applied?

Mr. MENDELOWITZ. I think we have to be careful about how we disaggregate the numbers. In our trade with other countries overall, the component of U.S. value that comes back in imports can be quite high for countries other than Mexico. If I remember the data correctly, imports that come from Canada, even though they don't have a maquiladora program, actually have a much higher U.S. value content than imports from Mexico overall.

So that if you want to look at how imports and exports affect jobs, you really have to look at the overall import and export picture, and that 20,000-job figure, as I said, is sort of an average. And you have to accept——

Senator LEVIN. It is an average over what, the world?

Mr. MENDELOWITZ. Basically, yes, in our trade picture.

Senator LEVIN. Well, does it make sense to apply that same average in situations like the maquiladora—whether it is Canada or maquiladora, does it make sense to apply that average in a situation where one-third of our exports, so-called, immediately come back here or promptly come back here for consumption after there is some value added? Does it make sense to you? Is that the same average?

Mr. MENDELOWITZ. I think that if you are looking at a particular program like maquiladoras, you have to undertake, I think, a much more micro-level analysis of what is going on. And I think applying sort of macro averages, like 20,000 jobs for $1 billion of exports, is not the appropriate way to go about analyzing it and studying it. For example——

Senator LEVIN. It is not the appropriate—let's put it in plain English.

Mr. MENDELOWITZ. It is not helpful. It doesn't give you good insight.

Senator LEVIN. It is not an accurate picture, is it?

Mr. MENDELOWITZ. It doesn't give you good insight into what is happening.

Senator LEVIN. Doesn't give you an accurate picture?

Mr. MENDELOWITZ. Probably not.

Senator LEVIN. All right. We are making progress. [Laughter.]

Senator LEVIN. And yet it is used over and over and over again.

Mr. MENDELOWITZ. Senator, this is the point I am trying to get at: You really have to do a kind of micro-level disaggregation, and you have to assess what is going on. And whether the maquiladora program represents on balance a net gain or a net loss to U.S. employment depends very much upon the assumptions that you make as to what the counter-factual situation would be.

So, for example, if the U.S. firms going to Mexico to do labor-intensive assembly operations are firms that have no international competition, and all they are going there for is to increase their margins, raise their profits, you could make the case that jobs are lost.

If, on the other hand, the industries that are going to Mexico represent industries under tremendous competitive pressure—from firms, for example, in the Far East that have access to large pools

of highly productive, low-cost labor—what the access to the maquiladora assembly operations represents is an opportunity to keep higher-value parts and component production in the United States by having the labor-intensive assembly operation done in a low-wage plant in Mexico. In such a circumstance, maquiladora's may be job-preserving. But it depends very much on, I think, a detailed analysis industry by industry, company by company.

Senator LEVIN. How is that job creation? I can see in your second assumption that it may preserve. How does it create?

Mr. MENDELOWITZ. I think my point is I would classify it as job preservation rather than job creation, and——

Senator LEVIN. That is not the way the export statistics are used. It is job creation.

Mr. MENDELOWITZ. I would say that——

Senator LEVIN. In either case, it is a distortion, isn't it?

Mr. MENDELOWITZ. Well, I think, to be honest, to talk about only one side of the trade picture in terms of the impact on employment itself is a fundamental distortion.

Senator LEVIN. That is the fundamental distortion which Mr. Kearns talked about.

Mr. MENDELOWITZ. That is right.

Senator LEVIN. We get half the picture. But I want to talk about the half that we do get. What you are even acknowledging—and it is helpful and it is honest—is that that picture is a distortion when we treat maquiladora trade, or U.S.-Canada trade where there is a lot of U.S. value that is in there and comes back, the same as European trade or other trade, that that is a distortion. And when the same average is used, 20,000 jobs per $1 billion, and that is used on that export number, that gives a distorted picture, for two reasons: One, it doesn't include the impact of imports—which is what your 1962 study did, Mr. Waite—but even within the half of the picture it is a distortion.

Mr. MENDELOWITZ. Well, I think that——

Senator LEVIN. Because it doesn't say job preservation. It says we are going to create jobs. This produces——

Mr. MENDELOWITZ. I think that the appropriate way to use the 20,000-job figure is at the macro level—if you consider it appropriate to look at only one side of the equation. I would submit that that is not the way to do it. But if you want to look at only one side of the equation, just the export side, and you want to tie it to employment that is associated with exporting—and I don't even want to say created by it, just associated with exporting—that 20,000 figure is probably as good a figure to use with respect to overall trade with a country, like overall trade with Canada or overall trade with Mexico.

Senator LEVIN. How about with Europe?

Mr. MENDELOWITZ. With Europe, too; with Japan.

Senator LEVIN. Same figure?

Mr. MENDELOWITZ. Probably. Probably. You are probably more of an expert——

Mr. WAITE. Well, no, I would just add——

Senator LEVIN. Do they use the same figure, do you know?

Mr. WAITE. I think the basic point, Senator, is that you can't look at just necessarily exports. You have to look at exports and imports.

Senator LEVIN. I want to get beyond that point.

Mr. WAITE. The 20,000 figure is totally accurate in terms of the gross value of exports. For example, a part that is exported——

Senator LEVIN. Is it the same for every country?

Mr. WAITE. A part that is exported——

Senator LEVIN. My question, though, is it the same for every country?

Mr. WAITE. Well, I would say yes. If something is produced in the United States, a part goes to Mexico, a part goes to Europe. The part to Europe is finally consumed. It is not returned to the United States as part of another product. It is the same part that went to Mexico.

To produce that part in the United States, whether it went to Mexico, whether it went to Europe, generated the same amount of jobs in the United States.

When it comes back from Mexico, one could argue that there is a loss. So you have to look, as has been said, at the export and the import side.

But if you are only looking at the export side, the 20,000 figure is accurate. It goes to Europe. It is not returned. It goes to Mexico. It is returned. Focusing only on one side, that is fine.

What I think you are saying, and I think we are all agreeing, is one has to look at both sides, exports and imports.

Senator LEVIN. No, I am going beyond that. Let me give you a couple other examples.

Mr. WAITE. Sure.

Senator LEVIN. Let's say you have got a parts factory in Michigan, a lot of parts factories in Michigan, and those parts are assembled into a car in Michigan. And the assembly plant is now moved to Mexico, but the parts still go into that car, and so the parts are now exports.

Have we gained any jobs?

Mr. WAITE. I am not saying gaining, but I am saying that parts factory there in Flint is sending it to Paris and sending it to a maquiladora.

Senator LEVIN. No, no. I just want——

Mr. WAITE. The same job is there if it is one job per part either way.

Senator LEVIN. I understand, but let me ask my question. I want to give you my hypothetical. This is real. These are real. You have got an assembly plant with 1,000 workers. You have got parts plants in the United States with 2,000 workers making parts for that car, and components. The 1,000 workers are assembling it. The assembly plant closes, moves to Mexico. OK? The 1,000 jobs are lost. The 2,000 employees that make those parts are still making the parts and shipping them to Mexico.

Mr. WAITE. Yes.

Senator LEVIN. Have we gained any jobs?

Mr. WAITE. No. I would say we lost jobs, and the reason is that we haven't made the calculation of the imports that have come in of those final products in Mexico that have come back to the

United States. If we made that calculation, that would be a minus to offset the plus, which is still a plus, from the parts that have gone to Mexico, Paris, wherever. So net, you are right.

Senator LEVIN. Net, it represents a lost job.

Mr. WAITE. In your example, yes.

Senator LEVIN. In my example. That is a real-world situation over and over and over again.

Mr. WAITE. Well, Senator, in 1952, in the Upper Peninsula, we used to say "No more ore from Labrador."

Senator LEVIN. Right, But I just want to stick to Mexico. I know you don't want to stick to Mexico, but I want to stick to Mexico.

Mr. WAITE. No, no. It is all right.

Senator LEVIN. That is the book, U.S. exports to Mexico.

Mr. WAITE. It is not a Census book, but fine. [Laughter.]

Senator LEVIN. Well, you are part of Commerce. Aren't you part of Commerce?

Mr. WAITE. That I am, that I am.

Senator LEVIN. These are the figures which are used to sell an agreement. These are export figures which include those parts which represent a loss of jobs.

What you are telling me is, the way you correct that distortion is by deducting the import. OK. That is fair enough. Is that in that book?

Mr. WAITE. That is not in the book.

Senator LEVIN. OK. I just want to let you know the way this thing is being sold, the way NAFTA is being sold. If you don't know it, it is being sold based on a distortion because those parts which you acknowledge represent a loss of jobs are in figures which are being used by Governors, one State after another—this is State-by-State: Michigan, Minnesota, Mississippi, Missouri. It is the same format. This is real-world stuff. This is what is being sold politically. That format is Michigan exports to Mexico have grown by 51 percent in the last 5 years. Those are those parts. Today over 31,000 Michigan jobs depend on exports, representing a 46 percent increase in export-related jobs. That is those parts that you acknowledge represent a loss of jobs because—for obvious reasons.

Mr. WAITE. Well——

Senator LEVIN. But your own testimony is unless you put in the imports and deduct——

Mr. WAITE. That is right.

Senator LEVIN. By the way, a much bigger number, because your 46 percent is a lot bigger than 31 percent. Then you get the true picture, and the true picture is that that represents a loss. And yet it shows up here as a gain in the Department of Commerce document.

Now that is all I am saying, and that has got to be corrected. And here is the letter that comes from the Department of Commerce, the covering letter with this book:

"Dear Senator Levin: How pleased I am to provide you with a review of" blah, blah, blah. "U.S. exports to Mexico translate directly into U.S. jobs." That is not true.

Mr. WAITE. Well, I beg to demur, because U.S. exports to Mexico obviously do create jobs in the United States and every place else.

Senator LEVIN. Wait a minute. Were those jobs—hold it. Were those jobs created? Were those parts—you said there was a loss of jobs.

Mr. WAITE. No. I said that the offset is the—you said the assembly plant is moving to Mexico, and, therefore, they are importing those final products back into the United States——

Senator LEVIN. Right. But take those 2,000 parts——

Mr. WAITE. If we made that calculation, which we don't, if we did, it would show up as a loss. But baldly stated, the exports, the gross amount, the parts, obviously create jobs.

Senator LEVIN. Did they? Now, let's go back to my example——

Mr. WAITE. But, but——

Senator LEVIN. No, no, let's go back to my example.

Mr. WAITE. OK.

Senator LEVIN. 2,000 jobs in auto parts, 1,000 assembly. Assembly jobs move to Mexico. Did we create any jobs in the United States?

Mr. WAITE. We did not on that net transaction. We did not. We lost jobs.

Senator LEVIN. I didn't say anything about the net transaction. I said that the assembly went to Mexico. That is all I said.

Mr. WAITE. OK. If the assembly——

Senator LEVIN. I didn't say where those cars went after they were assembled in Mexico. I didn't even give you that one.

Mr. WAITE. OK.

Senator LEVIN. 99 percent of it comes back to the United States. That is where the imports come in.

Mr. WAITE. OK.

Senator LEVIN. But I didn't get to that.

Mr. WAITE. OK.

Senator LEVIN. Have we gained any jobs even before we bring them back?

Mr. WAITE. No, we have gained no jobs. We have the same number of jobs. Let's say that those parts were exported from Pontiac to Flint. They are not in our export statistics. They didn't go to Mexico at all. Then there would be no exports whatsoever, and there would be no jobs created as a result of exports. There would be jobs in Michigan because they went from Pontiac to Flint. That is quite true.

If something went to Mexico and there was an export as a result of that, it would show up in those statistics as job creation because of exports, yes.

Senator LEVIN. But it is not.

Mr. WAITE. It is not between jobs created in the U.S. and jobs created in Mexico, I agree. I agree. I understand your question, yes.

Senator LEVIN. I am just looking at the export side now, right? Even before you get to your major distortion, which is no imports in here, I am just talking about the exports. There are no jobs created in that situation. Is that correct? Can we get a clear answer to that one?

Mr. WAITE. There are no jobs created in your example between those due to trade in the U.S. and exports. That is correct.

Senator LEVIN. OK. That is a helpful answer. There has been very little focus on that point. There is a lot of focus on the absence of import data. That I think there has been a focus on, and rightly

so. That is a major distortion. This is half a picture. But inside that half, there is another distortion, which is that exports don't always create jobs. That is the other distortion. OK?

Mr. WAITE. If there is no increase in exports over a base figure, I guess there is no creation—from some base there is no creation.

Senator LEVIN. And just to be very precise, in the situation that I gave to you there is no increase in jobs.

Mr. WAITE. That is correct.

Senator LEVIN. OK. We are making real progress here. Maybe we ought to move on with this kind of progress.

I really appreciate your willingness to come. We had a lot of good give and take. I would appreciate a copy of that 1962 study, by the way. Is it easily found? Could we find it, do you think?

Mr. WAITE. It is in my archives. [Laughter.]

Senator LEVIN. If it is not too thick, would you Xerox it for us?

Mr. WAITE. I will. I will find it, and I will send it. The Trade Expansion of 1962, as I remember it, was the number one priority of the Kennedy administration in that year, and we worked hard on putting those numbers together. So I will send it to you, Senator.[1]

Senator LEVIN. I think all of us are for increasing trade, but we have also got to look at what represents a true increase in jobs as a result. That is the part that is complex, but lumping it all together, putting those auto parts that are now going to Mexico that previously were going to Pontiac as job creating, I think we all would concede——

Let me call on Senator McCain, because I am not sure what his schedule is. We are at the end of the second panel. If you want to either question this panel or make a statement, this would be a good time to do it. If not, we will move directly to the third panel.

Senator MCCAIN. I would just ask one question, Mr. Chairman.

I know that you and I are on significantly different positions on this issue, but I would like to state for the record that I appreciate your cooperation and your willingness to allow witnesses that share more of my viewpoint, and I appreciate the fairness with which you are conducting these hearings.

I would just have one question for the witnesses, and that is: Do you have any information that there will be a greater loss of jobs to Mexico if the North American Free Trade Agreement is ratified? Do you see any increase, information that would indicate there is an increase in the movement of companies to Mexico any more than there is going to be an increase in movement of companies to Korea or Taiwan or Malaysia?

Mr. MENDELOWITZ. I would say that, one, I don't have any information to that effect. But, secondly, I would like to say that the focus on the relationship between trade, trade liberalization, and gains in employment or losses in employment I think is somewhat of a misdirected focus. The reason why is that trade is not job-creating or job-losing on balance or in the long run. The reason is very simply this: Macroeconomic policies determine employment, and over the long run we can't increase our exports if we don't increase our imports. So that obviously any time there is trade liberaliza-

[1] See page 338.

tion and growing exports, there is also going to be growing imports and painful adjustment for some. People are going to be hurt. Those who are hurt, I think, need to be compensated and helped because they are, in effect, paying the price for society overall being made better off by trade liberalization.

I think that trying to sell the NAFTA as some great engine of job creation is a mistake, and I also think opposing it with the proposition that it is going to be a major job loser is a mistake.

If you are looking at how trade with any one country affects overall employment—and I realize this is not helpful to the individual industries that are affected, positively or negatively. But if you are looking at the impact of a trade agreement or trade with a country on the employment base of the United States, the figure you should really be looking at is the bilateral trade deficit or trade surplus. If we have a situation where, on balance, we are exporting more to a country than we are importing, then, on balance, there should be somewhat more employment associated with the trade with that country.

Senator McCain. And our trade with Mexico last year was—I have forgotten what the surplus was now. Do you remember?

Mr. Waite. About $5 billion.

Senator McCain. Thank you. Mr. Waite, would you like to comment?

Mr. Waite. No, I have nothing to add to that. I agree with those comments.

Senator McCain. I guess I am not seeking a response, but those of us that believe that free trade is the fundamental economic underpinning of a global economy, clearly it seems to me it is even more of an obligation on us to make sure, as you mentioned, Mr. Mendelowitz, that we provide for those people that are in the short term dislocated. And I intend to support whatever programs we can to ease that very painful transition for some jobs and industries.

I thank you, Mr. Chairman. I thank the witnesses, and I apologize for being late. We were having a hearing on whether we should go into Bosnia or not, and I am sure you can understand that seems to have seized the attention of the American people at this particular moment.

Thank you, Mr. Chairman. And you weren't there either, Mr. Chairman. [Laughter.]

Senator Levin. I would have liked to have been in both places, for obvious reasons, but thank you, Senator McCain. I know that your staff will brief you on some of the very interesting testimony which we have elicited here, which raises a real question about whether all exports are created equal. Some of them are very different from other exports. Some of them do not reflect job creation here for lots of reasons, and I think maybe your staff, I am sure, will have a chance to brief you on some of this testimony.

We again thank our panel, and we will now move to our third panel.

Senator Levin. Mr. Schott, we are going to take about a 2-minute recess.

[Recess.]

Senator LEVIN. The third panel is Mr. Jeffrey Schott. Senior Fellow, Institute for International Economics. Dr. Schott, we welcome you, and please proceed. Again, if you can do what the others did, even though your testimony is a little shorter than theirs. It will be made part of the record, and to the extent you can boil it down, we will keep on schedule.

Mr. SCHOTT. I will do so.

Senator LEVIN. Thank you.

TESTIMONY OF JEFFREY SCHOTT,[1] SENIOR FELLOW, INSTITUTE FOR INTERNATIONAL ECONOMICS

Mr. SCHOTT. Thank you very much, Mr. Chairman. I greatly appreciate the opportunity to come before the Committee.

My testimony is based on two comprehensive studies that I have co-authored with my colleague, Gary Hufbauer. The first was published about a year ago, called "North American Free Trade: Issues and Recommendations"; the second was an assessment of the agreement itself, which was published just 2 months ago.

Both these books extensively document the U.S.-Mexico economic relationship, including estimates of potential trade and employment effects. We try to provide a balanced view, taking into account job creation and job dislocation. We agree with much of the comments made here today that one has to cover both sides of the jobs story, and it is a very complex story, indeed.

Our analyses are not lobbying briefs; we have tried to present for the benefit of the general public and for the Congress a non-partisan and objective assessment of the issues on the table and how to help the Congress determine what is in the best interest of the United States.

I should note that our first NAFTA book was cited extensively by the Bush administration and was also used quite extensively to brief Governor Clinton during the campaign. I commend it to you and your colleagues as you further pursue your work on the NAFTA.

Now, to the business at hand. First of all, we believe that ample data already exist to make an informed judgment on the implications of the NAFTA for the U.S. economy. Nonetheless, we share the view that data collection efforts can and should be improved for U.S. trade and investment with Mexico, and for the connection between trade and investment flows and U.S. jobs, in order to facilitate the ongoing evaluation of the NAFTA as well as to inform U.S. labor adjustment programs. Much of the comments of the last panel represent views that Gary Hufbauer and I would share.

Our prepared statement sets out six specific recommendations. I won't go over them in detail. The first two involve the reconciliation of bilateral trade and investment data, which has been discussed already this morning. I should mention that the Committee should take into account not only goods but services trade, which is very important in our bilateral relationship with Mexico and our overall trade relationships around the world. The services trade component is important and should be examined; in that regard, I

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[1] The prepared statement of Messrs. Schott and Hufbauer appears on page 198.

commend to the Subcommittee the work on trade data issues by the U.S. Coalition of Service Industries that has been doing extensive work on this on a global basis for a number of years.

The third and fourth recommendations in the testimony concern assessments of job dislocation by imports. Our fifth recommendation suggests the same procedures to be applied for job creation. I think these analyses require greater sophistication than work that has been done previously, and some of the issues and concerns have already been raised in your questions and in comments by previous panelists.

Our sixth recommendation calls for sector-by-sector comparisons of wage and productivity levels in the three countries of North America, and domestic U.S. review of major wage settlements to analyze whether there has been a Mexico effect. I think this is work that can be usefully done in the Government, in agencies, and by private research institutions.

The Subcommittee's work on data issues reflects an underlying concern about the adjustment of the manufacturing sectors of the U.S. economy to foreign competition and the problem of labor adjustment. These are important problems. But it is important to emphasize as well that these are long-standing problems that pre-date the NAFTA.

Indeed, the NAFTA is only a very small part of the problem. To illustrate, look at the estimates of potential job dislocation that could result from the NAFTA—and the estimates range from our own estimates of up to about 150,000 jobs over 5 years to perhaps 500,000 jobs dislocated over 5 years in some estimates produced by groups much more critical of the NAFTA—and compare that to the 5-year period 1985 to 1990, where 9 million workers were displaced from their jobs throughout the U.S. economy for a variety of reasons. The clear conclusion is that we have a big labor adjustment problem in this country that needs to be dealt with—and I commend the current administration for doing much more work in that regard to address this problem.

But the NAFTA-related component of that problem is very small—from our estimates about 2 percent, and even from the most extreme estimates of some other groups only about 6 percent, of the total job dislocation that normally occurs in the U.S. economy over a 5-year period.

U.S. trade with Mexico has almost doubled in the past few years, and the U.S. trade balance with Mexico has gone, as was mentioned earlier, from a deficit of about $2 billion in 1990 to a surplus of about $5.5 billion last year. On balance, we believe that this net export creation has already created many U.S. jobs. The total number, obviously, is a complex one. We feel that the Commerce Department analysis that came up with the 20,000 jobs per $1 billion of additional exports is a fair and reasonable estimate on an aggregate basis. I share the views of Mr. Mendelowitz in the previous panel that one has to regard this as a way to look at aggregate numbers, but it provides a good ballpark. We have applied the same type of methodology on the import side to get our estimates of job dislocation.

I believe that much more sophisticated work could be done to derive the import number, and I suggest that in our recommendations.

I should note that Mr. Kearns in the first panel grossly misrepresented our study from his citation of the *New York Times* article. I would be happy to present to the Committee the arguments to show why Mr. Kearns is badly misinformed on this point and should be doing much more extensive research than clipping newspaper articles and basing his analysis on that.

Senator McCAIN. How did he misrepresent?

Mr. SCHOTT. He claimed that we argued that over time there would be a long-term job loss resulting from a trade agreement. Any good economist knows that over time a trade agreement is not going to affect the *level* of employment in the economy. The estimates that we did that were not included in our final study, although they were cited in ITC testimony given earlier and in other public speeches, related to the *composition* of employment in the U.S. economy that could occur under very extreme assumptions that we made to try to set up the worst-case scenario for the impact on low-wage U.S. employment as a result of long-term growth in trade with Mexico, skewed to trade in particularly import-sensitive low-wage sectors in the U.S. economy.

We found that such extreme assumptions did not change the results in terms of the composition of employment in the U.S. economy that we had found over the near to medium term projections that are included in our book. So they were deleted to avoid confusion. Unfortunately, the *New York Times* article picked it up, scented a scandal which didn't exist, and created more confusion than they clarified by misunderstanding the story.

My final point, Mr. Chairman, is that it is important to emphasize that the NAFTA is, in large part, comprised of Mexican trade concessions to the United States. Mexico is eliminating their substantial trade barriers. Ours are much, much lower. They are also rewriting their intellectual property and their investment and their antidumping laws to conform with U.S. norms.

By contrast, U.S. concessions are quite limited, and with a few notable exceptions, particularly in agriculture, these concessions should not impose substantial additional adjustment burdens on the U.S. economy beyond those that already exist. But I emphasize that we recognize that we have important problems in this economy that need to be addressed, and that is why we applaud the domestic economic reforms that are being pushed forward, particularly with regard to the budget.

I think we share your concern that we need to improve the international competitiveness of the U.S. economy, and we share the view of the President that the United States needs to compete, not retreat. And we hope that our suggestions in terms of data improvements will help get a better understanding so we can do just that.

Thank you very much.

Senator LEVIN. Thank you, Dr. Schott.

The book that is at issue here this morning is something called "U.S. Exports to Mexico" from the Department of Commerce where they only show exports. There is no showing here of imports,

and, therefore, job losses or dislocations, whatever you want to call them.

I gather you would agree that in order to get a complete picture you have got to look at both exports and imports.

Mr. SCHOTT. Absolutely.

Senator LEVIN. Do you know whether the Department of Commerce has done that relative to Mexico?

Mr. SCHOTT. I know that they have not developed an analysis on the relationship of U.S. imports to U.S. employment as they have done on the export side.

Senator LEVIN. So we don't have an assessment by the Department of Commerce that is necessary in order to give us a complete picture?

Mr. SCHOTT. No. What we have done in our analysis——

Senator LEVIN. No, no. I am talking about from the Department of Commerce.

Mr. SCHOTT. I don't believe they have done a comparable study to the one that they have there.

Senator LEVIN. All right. So that we don't have a complete picture of U.S.-Mexican trade from the Department of Commerce.

Mr. SCHOTT. I would say that study itself is an incomplete tale.

Senator LEVIN. And yet State by State, we get the picture of exports up to Mexico, exports up to Mexico. Every State. And then we have got the translation of that 20,000 jobs per $1 billion of exports and, lo and behold, every State is magic, more jobs. I mean, this is what the Governors are being told, this is what exports do for you, and then they are told 20,000 jobs per $1 billion of exports. Then it comes out that way that each State, with three exceptions, has big job gains.

I am just saying this is the data we are talking about this morning.

Mr. SCHOTT. Right.

Senator LEVIN. This isn't directly a NAFTA argument here this morning. This is about the data that is put out by the Department of Commerce, and then it says Michigan—and each one of us can look up our own States—exports to Mexico grew 51 percent, and then in another document they say $1 billion of export equals 20,000 jobs, and then you get the Governors putting out these kinds of sheets: what exports increased to Mexico mean in terms of jobs. And that is, at most, half the picture because it doesn't look at imports. That is your main point—or one of your points. It is not your main point, but that is one of your points. It is an important point.

There is a second point, which is that all exports are not alike. And it took a lot of work, but I think we finally got the GAO and the Census Bureau to concede that all exports are not alike. And I gave them one example. I think finally they both agreed. Each of us from our States can come up with different examples if this is relevant. And since my colleagues weren't here, I will repeat it and get your reaction to it.

You have got 2,000 people working in supplying parts for an automobile assembly plant. They are the parts suppliers, 2,000 people. Those parts suppliers are in the United States. The assembly plant is in the United States. It hires 1,000 people.

The assembly plant closes, moves to Mexico, and now assembles those cars in Mexico. But the parts still come from the United States. That is my assumption. That is my hypothetical.

The exports now suddenly increase to Mexico. The same parts which were assembled in the United States into a car with American assembly workers, is assembled now in Mexico. We are not making any more parts, but our exports have gone up.

Our Census people and GAO finally conceded we didn't create any jobs with those exports. As a matter of fact, that transaction represented a loss of 1,000 jobs in assembly workers. We sure as heck didn't create any jobs. Create any jobs.

One of the witnesses argued we may have protected some jobs which otherwise may have been lost, but we sure didn't create any jobs.

Now, do you, first of all, agree—and there are two different questions—that particular export increase reflected by those parts now going to Mexico, previously assembled in the United States, may not reflect a job increase? Would you agree with that?

Mr. SCHOTT. I think it would be accurate to say that you have not provided enough information. You have only presented half the story by giving this hypothetical example, because there is more than those parts firms and that assembly firm. There is a larger integrated North American automotive industry.

Senator LEVIN. Sure.

Mr. SCHOTT. And so one has to see how this feeds off into production in other parts of the United States of both parts and assembled automobiles to make a determination whether this on balance is going to create employment or lose employment.

Senator LEVIN. That is why I said——

Mr. SCHOTT. But I think you are also correct——

Senator LEVIN. That is why I said may not.

Mr. SCHOTT. Yes. Your characterization would be correct, but I think it is also important to say that it is very hard to differentiate between trade that creates jobs and supports jobs. And it may be more accurate to use the term "This trade is supporting employment."

But it is also important, I think, to add another limitation on the use of this data for more micro analysis, and this is the point Mr. Mendelowitz was making.

The aggregate number that the Commerce Department puts forward is just that: it is an aggregate number. I think it is a fairly good one to judge the overall effects on the U.S. economy. But it is much more difficult to take that number and then apply it on a much more disaggregated basis by industry or by State without adding a lot more information about what is going on in particular sectors. And so we have been very cautious in using that type of extrapolation; we use it only to present aggregate numbers for the U.S. economy.

Senator LEVIN. To get back to my first question, you do agree that the increase in exports to Mexico represented by those parts that I described now going to Mexico may not represent an increase in jobs?

Mr. SCHOTT. I think it is unclear. Of course, the production of the——

Senator LEVIN. That is why I said "may not." I don't want to put——

Mr. SCHOTT. Yes. The production of the good requires people to make that good, but on balance what the net effect will be on U.S. employment is unclear.

Senator LEVIN. Did I not state the question clearly? Because I want to state it real clearly if I can, that the increase in exports reflected by those parts in my hypothetical now going to Mexico instead of being used here may not represent—may or may not represent an increase in jobs?

Mr. SCHOTT. OK. I think that is about as fine as one can cut it, yes.

Senator LEVIN. I want to state it fairly.

Mr. SCHOTT. That sounds——

Senator DORGAN. Mr. Chairman?

Senator LEVIN. Could I just get an answer to that? If it is not a fair statement, tell me. If it is a fair statement, then——

Mr. SCHOTT. I would say for being a very, very general statement which doesn't explain very much, it is a fair statement.

Senator LEVIN. OK. Now, Senator Dorgan?

Senator DORGAN. Mr. Chairman, I used to teach economics for a couple of years, and I understand the witness' reluctance to answer, given that set of circumstances. But it is clear on the face of the question that, given that set of circumstances, this country would have lost jobs, and the increased trade that is reported between this country and Mexico would represent not a gain, but a loss for this country. And although the witness says, well, we have to look at more than that, the fact remains that if you describe this circumstance as only that, the answer is clear.

If the only thing that is changed in the entire construction of how you manufacture and assemble that particular part of an automobile, and the assembly is moved from the U.S. to Mexico, then the chairman's question was pretty easy. The chairman's question is: Have we actually gained from increased trade in Mexico? The answer is no, of course not.

Senator LEVIN. I am glad it is easy to you. I have got to tell you, it took me about half an hour with the last two witnesses to get them to agree the answer is yes. But I think this witness only took about 5 minutes.

Mr. SCHOTT. Well, I had the benefit of the previous discussion. [Laughter.]

But I wouldn't follow that analogy because of the integration of the auto industry in North America, and one cannot say that the closing down of one parts plant doesn't mean that increased production will not be made at another, or that——

Senator LEVIN. I didn't say parts plant.

Mr. SCHOTT. I am sorry, or assembly plant. The same argument would follow.

Senator LEVIN. OK. I am almost done with this witness. Then I am going to turn it over to Senator McCain and then back to Senator Dorgan.

The sheet that was in dispute in the *New York Times,* I am not going to ask you about that part, about the part that you left out of your final study. I am, though, going to ask you about the break-

down of that. Have you done a State-by-State breakdown so that we can see which States gain under your chart and which——

Mr. SCHOTT. No, sir; we have not.

Senator LEVIN. Why haven't you?

Mr. SCHOTT. Well, I think part of the reason, the more disaggregated you go down the line, the more uncomfortable we are with just using a single extrapolation. And we feel that then you need much more extensive modeling of the particular situations under which the trade is being conducted.

There are other people who are doing that extensive modeling. It takes a great deal of time and effort. The models that have been done, most of the models that have been done in that regard have shown very puny effects, and we felt it was not our comparative advantage to spend that much time and effort when there are other things we could be doing better.

Senator LEVIN. Spoken like a true economist. You talk about comparative advantage.

Senator McCain?

Senator MCCAIN. Thank you, Mr. Chairman.

Mr. Chairman, I would like to mention that everybody is entitled to their opinions. Not everybody is entitled to their facts. And I would like to ask inclusion in the record of a letter from the Pillsbury people who state that Mr. Harry Browne from the Interhemispheric Education Resource Center appeared before this Committee. Mr. Browne submitted to the Subcommittee an article which contained the claim that Green Giant has transferred more than 1,000 jobs from a plant in California to a plant in Mexico. Pillsbury officials say that statement is patently false. I would like to have that entered into the record.

Senator LEVIN. That will be made part of the record.[1]

Senator MCCAIN. Thank you, Mr. Chairman.

Senator LEVIN. I was just trying to get the source of where that claim was made. Apparently it was at a previous hearing. I missed that part.

Senator MCCAIN. A previous hearing.

Dr. Schott, let's go back to some of the fundamentals. You think that the free trade agreement is good for the United States and Mexico?

Mr. SCHOTT. I think overall, yes.

Senator MCCAIN. Overall you think it is good for the United States and Mexico. Isn't it true that there are some Japanese car plants where Japanese cars are assembled, I believe in Tennessee a very large plant?

Mr. SCHOTT. There are Japanese transplants in the United States and in Canada and Mexico as well.

Senator MCCAIN. And the Germans, I believe, just made an announcement that they are going to—I believe BMW is going to have a very large assembly plant in the United States.

Mr. SCHOTT. In South Carolina, I believe.

Senator MCCAIN. Is it bad for Germany and Japan to do that?

[1] See page 283.

Mr. SCHOTT. There has been an extensive debate over several decades about the value of foreign direct investment, and overall I think the consensus view of the economics profession has been that it can be very beneficial to the U.S. economy.

Senator MCCAIN. I see. So there are more factors than low wages that dictate the movement of a company or a plant to a different country, obviously, or BMW would be moving to Mexico or even Haiti because that is where the lowest wages are in this hemisphere if that were the criteria. Is that an accurate statement?

Mr. SCHOTT. I think the most important factor in determining where you invest is the overall investment climate, which is determined in large part by macroeconomic policies. And in that regard, I am pleased that we are undertaking here a serious effort at budget reform, which I think will improve the investment climate in the United States.

Senator MCCAIN. Isn't it true that over the last several years the difference in our trade between the United States and Mexico has gone from minus $2 billion to plus $25 billion? Is that a roughly accurate——

Mr. SCHOTT. The balance?

Senator MCCAIN. Yes.

Mr. SCHOTT. The balance has gone in the last few years from minus $2 billion to $5.5 billion surplus in 1992.

Senator MCCAIN. $5.5 billion. Now——

Mr. SCHOTT. Bilateral trade surplus.

Senator MCCAIN. Pardon me?

Mr. SCHOTT. It is the bilateral merchandise trade surplus.

Senator MCCAIN. Yes. Now, even though some of that may be suspect, could possibly all of that $5.5 billion be some kind of shell game with parts?

Mr. SCHOTT. No. The automotive sector accounts for a substantial part of our bilateral trade, but not the majority of it. Our trade in capital goods and consumer goods has increased quite dramatically. Back in 1986, we sold only about $12 billion worth of goods to Mexico, and last year about $41 billion—a dramatic increase, but, of course, imports have also increased. The increase in trade has occurred without a trade agreement, and primarily because growth prospects have improved in Mexico and they have become a better market for our exporters.

Senator MCCAIN. Do you remember, Dr. Schott, in the days of President Lopez Portillo when the peso was devalued by 100 percent, I believe twice, and the business and trade between the United States and Mexico basically collapsed and there was a $30, $40 billion, if I remember right, capital flight out of Mexico? Do you remember those days?

Mr. SCHOTT. I was just at the tail end of my career at the U.S. Treasury, yes.

Senator MCCAIN. So you do remember those days. I remember them with some clarity because I remember businesses being shut down all across the border from San Diego to Texas because of just the closure, the failure of the incredible policies of the Mexican Government.

It may be out of your area of expertise, and you may not want to comment, but do you know what the consequences would be as far as Mexico is concerned if we turned down this trade agreement?

Mr. SCHOTT. This has to be in the area of speculation, but at least informed speculation of someone who has studied these issues now for several years and has talked extensively to businessmen on both sides of the border. I believe it would cause a shock in the capital markets. The Mexican peso is already overvalued, and I think it could lead to a sharp contraction in the capital inflows into Mexico, lead them to sharply constrain the growth in their trade, and, indeed, overall I think we would have, if not a repeat of the sharp drops from 10 years ago, at least part of that problem.

Of course, that drop in U.S. export orders would affect many companies around the country and would result in lost sales and, to some extent, lost employment.

Senator MCCAIN. And I would not expect you to comment, but it will also mean a dramatic increase of illegal immigration because of the drop in the Mexican economy, which is a natural consequence of President Salinas being basically discredited. But perhaps I stray from the subject.

But, in your words, we should compete, not retreat. Were those your words?

Mr. SCHOTT. Well, I think the President said that first. I was just echoing it and supporting that.

Senator MCCAIN. But you support that view, we should compete and not retreat?

Mr. SCHOTT. Yes.

Senator MCCAIN. Thank you very much, Mr. Chairman.

Senator LEVIN. Thank you. Senator Dorgan?

Senator DORGAN. Mr. Chairman, thank you very much.

Dr. Schott, nice to visit with you and thank you for your testimony. Have you ever either raised beans or learned to speak Spanish?

Mr. SCHOTT. I have failed miserably in both.

Senator DORGAN. Both. The reason I ask you the question about beans and Spanish is that I have interests in the U.S.-Mexico free trade agreement from a number of standpoints—especially agriculture—but a much broader interest that includes some of the interests that the chairman has. But let me speak for a moment about those of us from agricultural states so that you can understand our concerns.

We have a lot of bean growers in North Dakota. They raise dry edible beans, and we sell a fair amount of those beans to Mexico. So when the free trade agreement was developed, I flipped open the tariff schedule to Annex 302.2 to find out what happens to beans.

What I discovered was that the tariff schedule in the agreement is printed only in Spanish. It is not printed in English, it is printed in Spanish.

Now, I took only a semester of Spanish, so I was unable to interpret the tariff schedule. But it was probably just as well.

The history is that the 5-year average of shipping beans from the U.S. to Mexico was 62,200 metric tons a year, most of which came from North Dakota.

Here is what the Spanish version, when interpreted, of this agreement says. It says there will be a tariff quota of 50,000 metric tons. Now, remember, the 5-year average already was 62,000 metric tons. But, under NAFTA there would be a tariff-free quota of only 50,000 metric tons for 1994, and then a tariff of 139 percent on the sales from over 50,000 metric tons. And by the year 2000, the ad valorem tariff, while it is being phased out, would be 93 percent, and we would be allowed to move 61,000 metric tons of beans into Mexico. That is by the year 2000, and the amount is still below our 5-year average.

Now, if you are not an economist but instead a bean grower, you think you wouldn't wonder if people who negotiated this hadn't left their head at home someplace? And we can do this through the eye of a potato, if you wish, a french fried potato traveling to Mexico or a french fried potato traveling back, you will see the same circumstance. We can do this through a whole series of commodities.

Somehow our negotiators left their USA jersey at home when they went to negotiate, at least from the standpoint of agriculture.

Now, I just wanted to tell you that so that you understand some of the fervor of those of us who think this country got taken, at least in some areas of this agreement.

The chairman has raised points well beyond——

Mr. SCHOTT. Would you like me to comment on that very briefly?

Senator DORGAN. I will, but let me just make another point and then I will be glad to have you comment.

The chairman has gone beyond that and raised the question of jobs. I, too, am interested in the jobs issues. You talked about a trade—you said any economist worth their salt knows that trade agreements don't affect the level of employment. I didn't quite understand that comment.

Mr. SCHOTT. Over time.

Senator DORGAN. Clearly trade agreements over time can and will affect the level of employment if the trade agreement is generally concessionary to others in terms of the movement of jobs. We have had testimony before a subcommittee of this type in which someone who was helping establish plants in Mexico said one of the impediments to establishing more plants in Mexico from the U.S. was the tariff. And if we reduce the tariff, clearly there is more incentive to relocate where labor costs are lower. I am not suggesting that is the only factor in where you move manufacturing jobs, but that is a significant factor.

So I wanted to make that point. I would be happy to hear your comment about the agricultural sector of the free trade agreement.

Mr. SCHOTT. Well, sir, I was a trade negotiator for the United States back in the Tokyo Round of GATT negotiations, so I understand some of the problems and I understand your concerns.

Having not been at the negotiating table in this negotiation, your criticism seems valid. I think part of the problem with both U.S. exports of corn and beans was that we were facing reciprocal demands from Mexico that we make concessions in our fruits and vegetables sector. And our fruits and vegetable producers wanted very extensive protection over a long period of time, and I think there occurred the opportunity for a tradeoff between these highly

sensitive sectors, both on the export and import side for the United States. That is where the reciprocity kicked in.

Now, I am not saying that we shouldn't have gotten a better deal or not, but that is my understanding of where the domestic political pressures lay, and your concerns are being matched by others, by those of your colleagues.

Senator DORGAN. The same experience occurred with respect to the Canadian Free Trade Agreement, except it wasn't a tradeoff with fruits and vegetables.

Mr. SCHOTT. It was wheat.

Senator DORGAN. It was a tradeoff with investment bankers and others. We still lost in the agriculture sector.

Let me go back to this issue of jobs a bit because I think it is very important.

The purpose here, as I understand it, is to grow Mexico, which then will represent a much greater market for American goods. My understanding of the theory is that if we grow Mexico by substantial investments and certain trade agreements, Mexico will become a sponge for American goods.

Growing Mexico with new investment will require what percent of that investment to come from the United States, in your judgment?

Mr. SCHOTT. A very, very small percentage of total investment of U.S. firms; maybe 5 percent.

Senator DORGAN. But is it not true that about 60 percent of current new investment in Mexico comes from this country?

Mr. SCHOTT. Of foreign direct investment, that is correct.

Senator DORGAN. Is that correct? Would one expect, if the purpose here is to grow Mexico and, therefore, the U.S. is required to invest in Mexico in order to grow Mexico, that that ratio would be about the same, that new money needed to be invested in Mexico in order to grow Mexico would come from this country, maybe to the tune of about 60 percent?

Mr. SCHOTT. I think perhaps in the short term, but one is already seeing substantial interest in Europe and in Asia in the new investment prospects in Mexico because they have actually unilaterally turned their economy inside out. And that is what is driving a lot of the new investment in Mexico by U.S. companies and by foreign companies.

Senator DORGAN. The reason I ask the question is that we are discussing now an economic difficulty in this country, one part of which is an investment deficit right here. And if we are growing Mexico with largely U.S. investment at a time when we have an investment deficit right here, I wonder if maybe our first obligation isn't to grow America and then worry about growing Mexico when we have got this pretty well in hand.

Mr. SCHOTT. I think the priority is right. But you are not making that investment; it is private companies that are making that investment. And I think many of the domestic budget reforms, particularly cutting the budget deficit to ease some of the pressure on long-term interest rates—and there has been some progress to that extent already in the past few months—I think is helping encourage more investment in the United States. I certainly would encourage that.

What Mexico has been doing is trying to make their own economy more attractive for investors, Mexican investors and foreign investors. But there is no reason in the world why we shouldn't be trying to outcompete with them in terms of making our economy a more attractive place for investors from all countries.

Senator DORGAN. You are absolutely correct that investment is made by private companies. I understand that. But the point I was trying to make earlier is if you remove tariffs in order to remove what some of us think would represent the ability to describe a differential between the wage rates and so on, then you make it easier to move production that previously existed in this country to a low-wage country.

Let me ask you a broader question about the private companies that aren't saying the Pledge of Allegiance or saluting a flag, but that are just interested in international profits. The companies are circling the globe in their corporate jets looking for the lowest conceivable sweat-wage country in the world where they can produce tennis shoes for 40 cents an hour, and the're going to circle the globe until they find out where they can do that.

If you do that with virtually all manufacturing—and I know there are a lot of other considerations here, but wages are an enormously important consideration—where do you develop the income stream that used to be developed from production. That is, where do you get the wages of production with which to purchase the goods that are produced? I am wondering whether we are not seeing in every industrial country in this world, including the U.S., so-called recoveries without jobs because we have decided we are going to produce in areas with bargain-basement wage rates. That leaves consumers in industrial countries with minimum-wage jobs or with no jobs, and the consumers then don't possess the income stream with which to make those purchases.

Can you maybe comment on that? The reason I raise that is I think this is part and parcel of one of the difficulties we are going to have with the Mexican free trade agreement.

Mr. SCHOTT. I think you are absolutely right. There is a very strong concern about a "jobless recovery." This is a problem that has been developing over the years, over decades, and, therefore, requires long-term solutions. But there is a lot more than wages that go into the investment decision; even in the Hermosillo auto plant that the chairman mentioned earlier this morning, I understand total wage costs are about $4 an hour compared to $34 in Wayne for making the same product, which provides a huge advantage for the Mexican producer in terms of labor costs, which in turn is more than offset by the transportation costs. So you have to factor in where the market is. If we have a strong U.S. economy, the market is going to continue to be here, and that is going to be the focus. And in many industries, it is going to make sense to produce in the United States to serve the U.S. market.

Now, as far as the NAFTA and cutting tariffs, we have essentially had very few barriers, effective barriers, to Mexican trade right now, with the notable exception of many agricultural products. So the additional change from the NAFTA in terms of reducing trade barriers is almost entirely on the Mexican side.

Even in highly protected sectors such as textiles and apparel, because of the 9802 program and GSP, the average U.S. tariff on Mexican shipments of textiles and apparel to the United States is about 6 percent, much lower than our most-favored-nation rate.

So the NAFTA itself is not going to change the status quo very much, with the notable exception of agriculture, in most respects for imports or access to the U.S. market. The big change is we are going to be able to access Mexico much more easily.

Senator DORGAN. Well, we have a vote, and I will defer to the chairman. I appreciate your answers. I think that the chairman is raising some very important points about jobs, and many of us are very concerned about this. One of the things we are concerned about is this good-news, feel-good stuff that comes from people that say here are all the good things that are going to happen. They never show us the liability side of it. And we need some balance in analysis here of what do we gain and what do we lose. What do we honestly lose? Everybody says the pie-in-the-sky gain. Well, you know, what are we going to lose and what are the risks? And I think that is what the chairman is trying to answer with these kinds of hearings.

Mr. SCHOTT. Sir, I think you are absolutely right, and that is why I was so appreciative to be able to participate in this hearing. I think it is important to raise these concerns, to have much more data and analysis that balances the story, and we have hoped that in our small way we have provided some of that in our studies, but certainly not all of it.

Senator LEVIN. Two quick comments, and we have got real scheduling problems. One is that this book put out by the Department of Commerce, "U.S. Exports to Mexico," by everybody's view is one-half the picture, and it is the only half they put out. I am going to be asking the Department of Commerce to stop the further distribution of this book because it creates a totally distorted picture. It also contains distortions even within the export side because it includes as exports material going to the maquiladoras which are different from other exports—since it comes right back, we are trading with ourselves—and a number of other distortions. But I am going to be calling on them to withhold further distribution of this book.

You raised beans, Senator Dorgan, which is of great interest to Michigan, too, by the way, because we are number one in certain types of beans, interestingly enough—black beans, navy beans. I really appreciate your digging into that Spanish/English problem, because it has been represented to us that beans are winners.

Senator DORGAN. That is total baloney.

Senator LEVIN. And I think you——

Senator DORGAN. Well, it is total beans, actually. [Laughter.]

Senator LEVIN. It is bean sauce, that is right. And they are full of beans, right.

But we have been told our sugar—and we are big in sugar. We have got sugar beets. But we have been told—our bean growers have been told that they are big winners, and your analysis of the bean deal is a very useful part, just on the ag sector. And even those of us who come from "manufacturing" States that have huge

agricultural sectors are most appreciative of the work that you are doing on all of the NAFTA.

Senator DORGAN. So those few detractors I have, you will tell them I have contributed to the U.S. Senate here?

Senator LEVIN. I will. Thank you.

Thank you, Dr. Schott.

Mr. SCHOTT. Thank you very much.

Senator LEVIN. We appreciate your testimony.

Now we have a fourth panel, which is an important panel, and we also have to vote. The question is what we do.

Let me ask Mr. Goff, first of all, Mr. Goff, you have come all the way from California, so we are going to hear from you one way or another.

Mr. Plewes—am I pronouncing that right?

Mr. PLEWES. Right.

Senator LEVIN. I know you have gained a lot just from sitting here this morning, and you are grateful for that opportunity, whether you have a chance to testify or not, right?

Mr. PLEWES. Right.

Senator LEVIN. Probably what we ought to do is hear from Mr. Goff and include your testimony without hearing from you. That is one alternative because we have got to hear from Mr. Goff. The other alternative is for me to try to get back in about 15 minutes and pick up on the fourth panel.

Now, those are our two alternatives, and I think I should hear from you because you were called as a witness, you have been waiting here patiently all morning.

TESTIMONY OF THOMAS J. PLEWES,[1] ASSOCIATE COMMISSIONER, OFFICE OF EMPLOYMENT AND UNEMPLOYMENT STATISTICS, BUREAU OF LABOR STATISTICS, U.S. DEPARTMENT OF LABOR

Mr. PLEWES. Sir, whatever your convenience. My testimony stands for itself. I could elaborate during the discussion period, but whatever we do is fine.

Senator LEVIN. If we don't call on you at all, in other words, if we just rely on your written testimony, then we would just call upon Mr. Goff, ask him some questions, and then adjourn.

Mr. PLEWES. That is fine, sir.

Senator LEVIN. And I would apologize for that. OK. You are very nice to do that, but since you are a Government employee, we can take little greater liberties. We have already taken liberties with your COLA's. Now we will take it with your time.

Mr. Goff, come on up. You are going to be here on your own, and Mr. Plewes is going to sit there and watch and soak it all in. Thank you.

Mr. Goff, we don't have a lot of time, but we are going to squeeze it in, and then run. Can you boil down your testimony to 5 minutes, leaving me about 5 minutes for questions? And your entire testimony is there. This has been a very useful hearing, and your

[1] The prepared statement of Mr. Plewes appears on page 211.

testimony is extremely useful, by the way, as is Mr. Plewes' testimony.

TESTIMONY OF FRED GOFF,[1] DIRECTOR, THE DATA CENTER, OAKLAND, CA

Mr. GOFF. I think I will just try to make three points. One is I think that the information on plant closures and mass layoffs, from the kinds of reports you have received from the Congressional Research Service and others, indicates that that data is not available.

In my way of thinking, the second point, this data is important not only for NAFTA deliberations but also for all kinds of other questions that have come up: the movement of apparel jobs to Central America or electronics jobs to Malaysia or the movement of jobs out of California to other States or the movement of jobs out of my own home city of Oakland to other locations.

The main point I want to make is that I think that one of the keys to really making the data relevant is to gather it on an individual company basis and to eliminate the pledge of confidentiality. I just don't see any reason for that pledge to be in there or for that restriction to be in there. And if you lifted that, I think the Bureau of Labor Statistics could produce some very relevant data. I think they have the means to do it, and, in fact, are sitting on a lot of the data that could be very informative, not only to this discussion but other discussions that I think happen all the time within Congress.

If the EPA can gather individual company data and make it public, why can't the BLS gather individual company data and make it public?

You, at the beginning of this hearing, said that you were interested in grass-roots movements, really bringing pressure to bear on this. If there is no data that identifies individual companies and individual cases and how that affects individual people's lives, it is very difficult to organize the grass-roots movement and to bring together people who are affected by these plant closures and the loss of jobs. And to my way of thinking, the loss of a plant in a community or mass layoffs in a community has just as much of a toxic impact on that community as does a Superfund dump or some other form of data that is tracked by the EPA.

That is the main point that I wanted to make.

Senator LEVIN. One of the things that we would like to do is to see if the Bureau of Labor Statistics would be willing to respond to your suggestions to the use of their data.

Why don't you come up here just for a minute, Mr. Plewes? I didn't think I was going to do that to you, but I will, indeed.

There have been some specific suggestions here as to how your data can be made more useful. I think you already, by the way, have worked on making your data more useful. But there are some specific suggestions in Mr. Goff's testimony about BLS making greater use of its own information and giving us information in more usable forms.

Are you able to respond to those suggestions? Have you read his testimony?

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[1] The prepared statement of Mr. Goff appears on page 206.

Mr. PLEWES. I read it very quickly.

Senator LEVIN. And you heard what he said here this morning.

Mr. PLEWES. Yes. First of all, the point has to be made that BLS does not have a data collection program right now. We had a data collection program up to November 1992. So anything we can talk about is how we ran the program before November 1992 or how we will run it if the program is reinstated in the future.

We believe that in the BLS statistics, collecting some of the information such as "reasons for going overseas" or "the kind of business line you are really in" is a confidential business factor. We believe that the data we collect is better because of confidentiality, although we are certainly willing to look at whether or not the data can be made more useful.

We also found, in studying our database versus other databases, that our database is much more complete than most other databases. We think one of the reasons is because of the availability of data that is collected under a pledge of confidentiality.

We are willing to work with the Committee and with outside groups such as Mr. Goff's in redesigning a program that will meet the new requirements, the new NAFTA impact studies and so forth to support the administration's dislocated worker programs when they come up to Congress. So we are very open to these kinds of suggestions, sir.

Senator LEVIN. First of all, was the reason for the termination of that study congressional reduction in appropriations? Give me the background.

Mr. PLEWES. No, sir. It is a long background. Let me just tell you that Secretary Martin had asked the Congress to designate specific funds in the congressional budget for 2 years running. She said that if Congress didn't do it the second time, that she wouldn't fund it. She made a decision to use discretionary funds out of the Title III of JTPA for dislocated workers instead of statistics, and she terminated the program back in November.

Senator LEVIN. So Congress did not give a specific direction to keep the program going?

Mr. PLEWES. There was congressional report language, but not the actual appropriation. That is my understanding, sir. There was not a direct funding that came to BLS.

Senator LEVIN. OK, because that is something we are going to have to look into.

Mr. Goff?

Mr. GOFF. I wanted to ask Mr. Plewes why you think that you would get more accurate data under confidentiality than under disclosure?

Mr. PLEWES. Well, we do ask reasons and total employment and so forth, things that they may not otherwise divulge to the local Chamber of Commerce or to the newspapers where most people get their sources.

Senator LEVIN. Are you able to ask for that data but indicate that certain data will be kept confidential while other portions of the data will not be? Could you not distinguish?

Mr. PLEWES. The pledge we have is that the data will be kept confidential for statistical purposes and for JTPA program pur-

poses. We have made that data available to the JTPA program operators, just not to the general public, sir.

Senator LEVIN. But I think Mr. Goff's point—I may be wrong—is that more of that data could be made public without violating certain privacy considerations, and that that representation could be made to the companies.

Mr. GOFF. And with that, I think you would get much more—then there would be opportunities for parties to independent verify that, and I think it would produce a much better database from which to try to formulate policy and judge impacts than keeping things anonymous and in totally aggregated statistics. I think that is one of the real problems with using BLS.

Senator LEVIN. Could we do this, so that I don't miss the vote? I appreciate your staying and participating this way. We are going to have to look into the appropriations side of this. I am going to check that part out myself. Otherwise, it is a moot point, perhaps.

Could you take a look at the specific suggestions of Mr. Goff as to how we can make greater use of the data, how we can make public individual plant information and still get it?

Mr. PLEWES. Sure.

Senator LEVIN. And would you report back to this Subcommittee as to what would be possible in that regard? Because whether we can get an appropriation may depend on how useful the data is we can represent to the Congress we are going to get. So could you review both his written testimony and his oral testimony? In fact, could you even meet here for a few minutes, perhaps, and then submit a report to this Subcommittee as to which of their recommendations you believe might be implementable to make this data more useful? Could you do that?

Mr. PLEWES. Yes, sir. And can I also draw your attention to the last page of my written testimony, which says that the Department of Labor has committed to doing a review of the statistical database, as part of the new dislocated worker program.

Senator LEVIN. OK. That would be real helpful, because we have got to make some progress in this area, and I think we can. Maybe you two can chat a little bit here, but we will expect a report from you.

Again, your testimony is not only valuable, written and what you presented here, but your understanding of the situation we find ourselves in around here is also very much appreciated, that I have got to run and I can only wave to you farewell. Thank you for coming all the way from California.

[Whereupon, at 12:16 p.m., the Subcommittee was adjourned.]

APPENDIX

Opening Statement of Senator Byron L. Dorgan

before the

Governmental Affairs Committee
Oversight of Government Management Subcommitteee

April 1, 1993

Mr. Chairman, I want to thank you for calling this hearing to address our lack of information and focus regarding the economic effects of implementing the North American Free Trade Agreement (NAFTA).

I think the best way to understand NAFTA in its present form is to ask, "Who gets the guarantees and who gets the promises?" Up and down the line, the runaway corporations get the guarantees, while American farmers and workers and business people get the promises.

For example, corporations get a guarantee that they can take their jobs South, operate under lax Mexican law enforcement with cheap labor, and sell their products back to the United States. U.S. workers, in contrast, get a promise that this will mean jobs for them: that the runaway plants will create a Mexican middle class which in turn will buy America's high-tech products. They are promised that this new middle class also will insist upon enforcement of the environmental and worker safety laws that Mexico has not enforced with any rigor in the past, and that the new prosperity in Mexico will give the government the funds to enforce these laws.

That's the deal that the proponents of NAFTA want to force upon the American people. The guarantees are set in stone. The promises are only set in someone's mind.

North Dakota farmers heard many of the same promises before the U.S. signed the Canadian Free Trade Agreement. Shortly after the Agreement was signed, the Canadians flooded our market with tens of millions of bushels of durum wheat -- the kind used in pasta -- along with spring wheat and barley. The Canadian government subsidized this grain heavily, through payments to farmers and by paying much of the rail freight.

As a result, Canadian grain was sold in America for less than its cost of production. Our own farmers can't compete at those prices, and the durum acreage in my state has dropped by almost a third since 1989.

I'm not saying that I think NAFTA is all bad. Naturally, there will be some winners in this country under NAFTA. Largely, they will be in America's high-tech industries in which Mexico's unskilled labor can't compete -- yet. That's all well and good. But it's not much comfort to parts of the nation like mine that won't partake much in that benefit. The fact is, the jobs that will flow South include the kind that rural states like North Dakota are trying so hard to attract -- small manufacturing operations that can move without huge expense.

Meanwhile, America's family farmers are at real risk. NAFTA trades away their livelihoods just as the Canadian agreement already has done. Time and again in NAFTA, we find that Mexican producers get open markets while American producers face continued barriers.

Potatoes are a good example. Under NAFTA, the United States will phase out its tariffs on potatoes over 5 years while Mexico

will have 10 years. Food processors in Mexico will be able to sell virtually every last french fry to the United States, while our own farmers will be shackled with even tighter quotas in Mexico than exist now (along with continued tariffs for 10 years).

Many have compared NAFTA to a table that tilts down toward Mexico, and this is a perfect example. With low wages and tariff protections in Mexico, plus free access back into the U.S. market, don't you think that our potato processors just might move some of their plants down there? Americans will be left to stock the shelves and bag the groceries.

Trade can't be free if it's not fair. The example I just gave about potatoes is not an isolated example -- the same analysis applies to beans and countless other agricultural commodities.

So NAFTA promises wonderful things to the producers of this country -- our workers, our farmers, and our small business people. But the only real guarantees under NAFTA would go to large financial interests that can take our jobs away. NAFTA would clear the way for American corporations to take their jobs to Mexico where workers make a dollar an hour. It would give these companies a virtual veto over American laws that protect workers and the public against health and safety standards.

For all its merits, NAFTA contains too much that the people of this country should not have to accept. I look forward to working with the Chairman and others on this critical issue, and I thank the Chairman for holding this important hearing.

Maquiladoras / NAFTA

Prepared text of Tom Fairfax

for

The Subcommittee on Oversight of Government Management

Carl Levin, Michigan, Chairman

April 1, 1993

Dirksen Senate Office Building
Washington, D.C.

THE MAQUILADORA PROGRAM

Established in 1965 by the Mexican Government as the "Border Industrialization Program", the Maquiladora Program experienced modest success until the mid 1980's. Since that time, its explosive growth has taken even Mexico by surprise by surpassing tourism as the second largest contributor to Mexico's GNP and has been widely recognized as a major contributing factor in the current economic crisis in the United States.

Contrary to popular belief the Maquiladora Program is not a joint U.S./Mexican effort. It was a unilateral move on the part of Mexico to entice citizens away from the major urban areas such as Mexico City. In fact, Mexico City is still the only place in Mexico where a Maquiladora is not allowed to be established. By allowing the duty free importation of raw goods into the border region, Mexican workers could provide assembly labor and the resulting finished product could be (must be) exported back out of the country.

A key element of the program is an inventory tracking system designed to ensure that these raw materials and subsequent finished products do not find their way into the Mexican economy. Throughout the history of the Maquiladora, the Mexican government has been tenacious in assuring that Maquiladoras do not take business away from Mexican companies making similar products.

Another key feature is the control of currency. Companies operating under the license of a Maquiladora <u>must</u> charge for their services in foreign currency. The foreign currency is then exchanged into Mexican currency at a controlled rate established by the Mexican government. The Maquiladora must then pay its bills and payroll in pesos.

Makeup of the labor force.

Maquiladora workers are predominantly young mothers ranging from ages 16 to 23. They work as a means of obtaining enhanced medical care through the Mexican Social Security System for their children. Some men do work in the Maquiladoras as well but it is in conflict with the basic machismo attitude of Mexican males to not work for minimum wage. Males usually occupy jobs that require their strength in supporting jobs that typically pay at least twice or three times the going rate for laborers on the manufacturing line.

The capabilities of the Mexican workforce in general are far better than most people realize. Their educational system would be more appropriately ranked in the same category as the U.S. and Canada as opposed to what we would normally expect of a developing nation. A combination of European and U.S. curriculum is taught in the public schools and there are a fair amount of private schools with excellent curriculums relating directly to manufacturing disciplines that are available to students from middle and upper income families. Many college graduates are totally bilingual (Spanish and English), and some have received additional education in the U.S. It is not as hard as some would think to find a young, articulate Mexican who is a recent graduate from Stanford or U.S.C. aspiring to work for a U.S. company with operations in Mexico.

The only real problem with the Mexican workforce is that prior to 1983, finding someone with hands on experience in state of the art manufacturing was very difficult. Theoretical knowledge was more than adequate but Mexican schools did not provide the same degree of opportunity for hands on learning as do schools in the U.S. or Canada. More recently, we are seeing graduates from technical schools who are entering the workforce with a good working knowledge of Statistical Process Control, and other advanced manufacturing systems.

A major handicap of the Mexican workforce is our own insistence to stereotype their capabilities. We look at them as less than capable and embark upon programs of "testing the waters", a small amount of manufacturing designed to test their skills. At the slightest hint of an error or mistake, U.S. managers are quick to say "See, I told you so. Mexicans can't do this kind of work!" Never mind that we failed to send them critical information on unique characteristics of the item to be manufactured, or sent them the wrong parts to build it with in the first place. U.S. companies who have gotten past this stage and have proceeded to make a total commitment to the success of their operations in Mexico have experienced excellent results.

Much speculation has been made about the possible exploitation of the Mexican workers by foreign companies. In this instance, exploitation is a relative term. According to the U.S. values system, Mexican workers are definitely being exploited. However, <u>their</u> interpretation of the current state of their economy, living conditions, and prevailing wage rates is that the jobs provided by the Maquiladora program are a welcomed respite in the face of such hard economic realities. In most cases, Maquiladoras incur little if any advertising expense in attracting potential employees because there is usually a steady stream of applicants seeking any available opening. Factories built in Mexico by American companies are usually considered "ultra modern" by Mexican standards and employees enjoy the time that they spend there.

Looking at the complete history of the Maquiladora Program, I am convinced that the Mexican government never intentionally set out to steal jobs away from Americans. Rather, I believe that this is a simple case of being in the right place at the right time. More recently however, they seem to be looking at ways to take advantage of, and expand on the current fashionable trend in moving factories south of the border.

Who are legitimate prospects for a Maquiladora?

There are many companies that have a legitimate need for a manufacturing presence in Mexico. Most often, it is due to foreign competition.

Ideal candidates usually manufacture products that are based on low to medium manufacturing technology. The assembly process is predominately labor intensive yet can be learned relatively quickly. What we refer to as "short learning curves". In the early days, this included only the most rudimentary electronics manufacturing. However, now that a good base of trained labor is available throughout Mexico, it includes almost all electronics manufacturing.

The ideal candidates have a product that do not require significant investments in inventory. Having an operation in Mexico can easily add one or two weeks of lead time to the overall process of material procurement. This could add a significant burden to the cost of carrying inventories.

The product being produced in Mexico will have little if any duties. Even when duties are applied to the "value added" in Mexico, this includes most all direct and indirect costs associated with the activities there.

The products produced in Mexico will have limited value on the "Black Market". This is not to cast Mexico in a light of being riddled with thievery, but it is a poor country. Whereas we usually take additional precautions in poor areas of our larger cities, this same concept must be applied to Mexico as a whole. Theft is a by-product of any poor economy, whether that economy is defined as a 10 square block of an inner city, or a whole country.

The renowned Peter Drucker professes another reason for having a presence in a foreign country. That is, if your products have a discernible market share in that country. The theory behind this is to avoid being impacted by currency fluctuations. The cost of manufacturing a product will remain somewhat constant with the amount at which it is sold in that economy.

WHAT MAKES THE MAQUILADORA SO ATTRACTIVE.

Labor rates.

Without a doubt, the single most tangible, prevalent factor that makes the Maquiladora attractive is the low labor rates in Mexico. Still costing only about $2.00 US per hour including labor related burden such as vacations, holidays, seniority reserves, Christmas bonuses, social security and mandatory profit sharing; the totally burdened labor and overhead rate for a low technology factory employing more that 75 direct labor personnel can easily be held below $6.00 US. This compares favorably to the same type of factory in the Los Angeles area that would cost about $15.00 per hour to operate. Although these labor rates will rise with increased competition for the available labor, they will probably remain at a fraction of comparable U.S. wages for some years to come, even if left to the effects of supply and demand. However, because the Mexican Government controls both the minimum wage and the Maquiladora's currency exchange rate, they have the power to effectively control the dollar equivalency of labor rates at will.

The standard 48 hour work week.

The standard 48 hour work week is also attractive for operations that are limited by machine capacity, or must respond to increase demands on short notice. Mexican workers can work up to 10 hours

a day without overtime and 6 days per week without overtime, or any combination thereof. This provides a 17% increase in available labor without incurring overtime charges, and a corresponding increase in utilization of equipment and facilities. At 208 direct labor hours per month in Mexico versus 172 direct labor hours per month in the U.S., it provides a broader base to amortize fixed overhead making the totally burdened rate even lower.

The Shelter Plan.

The "Shelter" plan is an unofficial program whereby an existing Mexican company does work for a foreign company under the shelter of its current legal standing. The foreign company does not have a legal presence in Mexico and does not need to apply for any operating permits. By not having a legal presence in Mexico, the foreign company is not required to interface with Mexican authorities. Carry this concept a little further by having the Mexican company (or its U.S. "phantom" or holding company) acting as the Importer of Record with U.S. Customs, and you can see how a U.S. company can almost totally conceal their presence there.

Shelter Plans originally provided just simple sub contract work where an existing Mexican company (more than likely making products for the Mexican market) would utilize a small portion of its manufacturing space to build a similar product for a foreign company, using raw materials furnished by the foreign company. Most of this work prior to 1982 was done by Mexican companies utilizing the Maquiladora program as "fill-in" work. After the devaluation of the peso in December of 1982, the Maquiladora literally came into its own.

Starting in 1983, the Maquiladora program became the method of choice for many companies seeking to have complete stand-alone factories in Mexico. With a few exceptions, the foreign companies still utilized the Shelter approach so they could avoid

having a legal presence in Mexico and to some extent, preferred this method so they would not have their real corporate names highly visible in Mexico. They would also treat the Mexican company as a "vendor" instead of a "subsidiary" so they could expense everything and would not be required to consolidate the books.

Between 1983 and 1985, we were starting to see some very large operations being moved to Mexico and to accommodate the unique operating requirements of the foreign "parent", new Mexican corporations were being formed and applying for Maquiladora permits with the intention of servicing a single client. In essence, the "captive shelter".

At about this same time, terminology's started to develop on an industry wide basis. Sub-contract work was coined as the phrase where the client would pay on a per piece basis. Shelter was the phrase associated with paying for the services on an hourly basis (actual hours worked by direct laborers). In 1986, our company introduced a new phrase called the "Incubator". This was a brand new Mexican corporation formed as a "captive shelter". Our company owned all the stock and was contractually bound to turn over 100% of the shares to the client at the end of the contractual period, which was usually 2 to 3 years. This allowed us to form the corporation, acquire the operating permits, lease or build the factory, hire the work force, transfer the products from the client's existing manufacturing site and deal with all the bureaucratic red tape in Mexico; all with minimal input and assistance from the client. At the end of the contractual period, all of the unpleasantries associated with new start-ups were behind us and the client stepped in and assumed operation of an ongoing concern.

Perception of relaxed environmental laws.

Some would argue that this only a perception but the reality is that many companies have an eye on Mexico with the intent of circumventing what they believe to be excessive environmental regulations in the U.S.. Most of the major Shelter Plan operators in Mexico do not offer a haven for these companies, but a few of the smaller, usually Mexican owned companies have been known to accommodate them. Throughout our existence, our company's policy was "Whatever you have to comply with at your current location, you will need to do the same in Mexico." We made it clear that we were in Mexico for the labor savings, not to kill Mexicans. This rather ambiguous approach was necessary because SEDUE (the Mexican counterpart to the EPA) had no real guidelines to follow or regulations to enforce. On one occasion, we had a fiberglass factory shut down by SEDUE because "Anything that smells that bad has got to be toxic!". The lengths that we had to go to in dispelling this uninformed notion were ridiculous and almost unbearable. It was after this incident that as a company, we decided not to handle any clients with hazardous materials, regardless of their commitment to comply with published regulations.

The Ego Trip.

Another attraction is what we call the ego trip. This is usually a small corporation or company, closely held, with a President who wants to be able to brag about his "international" operations. These people seem to abandon all logic and are the most likely to embark on an ill advised venture into Mexico. They are also the most likely to experience a failure. But when the operation ends up costing the same effective rate per hour as what they experienced in the U.S., they are quick to beat the Mexican with the stereotype whip and place all the blame on them. His ego will simply not allow him to admit that he had no business there in the first place.

Regulatory pressure.

An interesting characteristic about American businessmen is that they don't like being told that they have to do anything. When federal, state or local governments pass ordinances or laws dictating what a company can or cannot do, most business owners or CEO's seek methods of circumventing the legislation. When the legislation is deemed to be excessive, a move to Mexico is contemplated as a means of striking back at the establishment for their meddling. These business people are quick to point out how the legislation will increase their costs by whatever means, and how they will have to struggle to bear the extra burden. On many occasions, I actually got the impression that low labor rates were almost secondary to the main objective of escaping regulatory meddling.

Media hype.

I said that labor rates were the single largest tangible factor in making Maquiladoras attractive. There is a larger factor but it is intangible. It is what I refer to as media hype. The press in America has created a veritable feeding frenzy on NAFTA. Companies have read and heard about the soon to be, unrestricted access to cheap labor south of the border and are lining up for what could be best described as a repeat of the California gold rush. So many companies are talking about their intent to get a piece of this action that other companies feel that the only way they will remain competitive is to have a presence there as well. Hence, a snowball effect. One can almost hear a universal slogan being thrown around the boardrooms, "We will not be the last one in our industry to have a presence in Mexico.".

Mexico could spend $100,000,000.00 dollars on a public relations campaign and they will not be half as effective as what the media in the United States has done for them, free of charge.

WHAT ARE THE DRAWBACKS?

Cultural differences.

The major drawback in doing business in Mexico is our continued insensitivity to cultural differences and our stereotyping of the abilities of the Mexican people. In the book "Distant Neighbors", the author says that "Nowhere in the world are there two countries who share a common border where the differences in culture are so profound." Not just limited to family life, these differences are prevalent in corporate Mexico as well. Mexican managers and workers have a completely different perspective on the role of the company and find the methods that most U.S. companies use in their factories there as rude and insensitive.

It is my perception that people from Mexico (not Mexicans born or raised in the U.S.), do not like people from the U.S. They think we are rude, overbearing, insensitive and lack good moral values. At best, they tolerate us. On a wall in the southern part of Mexicali, there is a sign painted in graffiti that sums up what I think most Mexicans feel about us. It says "Yankee go home, but leave your money!" Every time I think of NAFTA, I see the vision of that sign and I get an uneasy feeling. For Mexico to be so eager to have us ratify this agreement, I can only think that it must be much better for them than it is for us. Otherwise, they would continue their isolationist position and avoid us like the plaque.

Surrendering the manufacturing capability.

When an operation is moved to Mexico, it hardly ever entails setting up parallel operations there (Although with the reintroduction of investment credits, some companies will probably use this vehicle to purchase new equipment for the specific intent of having dual operating factories). Two of the most important assets of any manufacturing company are its people and its equipment. When both of these assets are sent south, it is generally considered a one way street. If the operation fails in Mexico, the company's future is bleak. If it is to fail, it will probably occur within the first two years. Having to write off the expenses involved in moving entire factories twice in two or three years would probably be the death blow for most companies.

If the start-up in Mexico drags out and the company falls way behind on delivery of its product, the company's clients may seek other suppliers. This is especially true in today's globally competitive climate.

In reviewing these significant risks, most companies who evaluate Mexico for possible manufacturing operations decide not to go. The risks far outweigh the rewards. In reviewing our own internal sales lead data versus actual contracts, we see that of every 10 companies who evaluate Mexico, only 2 may actually effect a move. For a company to continue on and actually move its operations south of the border, you can only surmise one thing; the perceived pressure must have been significant.

The power of Mexican laws.

Unlike the U.S. where security interests can be perfected to protect the secured parties' priority interests, in Mexico government agencies have omnipotent powers to seek relief of moneys owed to them. This includes the seizure of equipment and

materials "on the premises" of a company (not just a Maquiladora), regardless of who it belongs to. Bailment agreements, properly executed and registered with the Mexican Consulate, have all the fancy language and bells and whistles that one would expect of an international agreement, but really only provide protection in a civil matter. If the Mexican Social Security Administration thinks a company owes them money, regardless of who owns the company or under what premise, license or permit they are operating under; they will seize the property and auction it off to satisfy the debt. Pleas of "It is not their equipment -- look at this bailment agreement", usually fall on deaf ears.

Increased inventories, increased shrinkage.

As stated earlier, increased inventories are necessary to accommodate an operation in Mexico and because of the economic conditions there, some increase in shrinkage is bound to occur. Even without considering the poor economy, one of the basic principals in inventory management is that the more inventory one has and the more people that have access to it; the more shrinkage you can expect. Storing or moving the inventory in a poor economic environment is just magnifying the potential and increasing the risk.

Lose of manufacturing expertise.

Once a move to Mexico has taken place, manufacturing expertise that took years to develop is now lost forever when the long time employees are displaced. In almost every instance where we would move a product line that was commercial in nature, the documentation would be incomplete. The reason for this was simple. Unlike medical or aerospace manufacturing companies that are mandated to have impeccable and totally traceable documentation, commercial companies get into a lazy habit of not updating documentation unless there is a problem. As long as

product is being made that works right, there is no perceived need to spend money on documentation reviews and updates. But the only reason the product is being made correctly is that the people on the manufacturing line have been there 5 to 15 years and they just know how to do it right, regardless of what the documentation says. In the transition to Mexico, some documentation is updated but mostly intense personal training takes place.

Now the product has been totally transferred to Mexico. The Mexican factory experiences somewhat high turnover rates. Sometimes as high as a 100% turnover in the direct labor force in a twelve month period. Retained (undocumented) knowledge is now being lost through attrition. Some of the more important information has been documented; but in Spanish. The Mexican operation does not live up to expectations so the decision to retreat back to the U.S. is made. Transferring the product knowledge from Mexico back to the U.S. is almost impossible. Learned product knowledge that might have taken 10 to 20 years to develop is now lost forever. It is time to start from scratch.

An unpredictable government.

One of the most frequently asked questions of people evaluating Mexico is "What is the likelihood that Mexico would do the same thing they did in 1982 again?". As bold a move as that was (nationalizing the banks and major industries), anyone considering a significant investment in Mexico has got to be a little concerned. The thought of the Mexican Government arbitrarily seizing entire industries continues to be a major roadblock for companies evaluating Mexico for a manufacturing site.

<u>The pressure differential.</u>

The first step in any negotiation is to determine what the other party's motivation is. To understand the pressure that they are under so the best deal can be made. In negotiating with U.S. manufacturing companies, many of them divisions of the Fortune 1000, we have come to realize that these companies feel pressure "to do something -- anything." This pressure that they are realizing is made up of two components.

Low labor rates in Mexico definitely create a vacuum. It is hard to justify paying someone $15.00 per hour when the same job can be done for $2.00, in some cases less than 200 miles away. But labor rates alone do not make the Maquiladora successful. If labor were free in Mexico, many companies still would not move there, citing many of the above stated drawbacks and enormous risks and exposures. It doesn't matter how low the wages are if you lose your customers through inability to deliver products, or lose your manufacturing capability altogether because your equipment was lost or tied up in a bureaucratic nightmare.

What does make the Maquiladora successful is the pressure that is made up of a combination of low labor rates in Mexico coupled with perceived excessive regulatory interference in the U.S. I say "perceived" because in many cases the problems associated with anticipated regulations never really materialized once they went into effect.

However, given the atmosphere in this country that almost every CEO thinks that government is already too big and gets involved in areas that would be better served by the private sector, it is not surprising that at the mere hint of new regulations they start looking for alternatives. Once their nose is to the ground, the sweet smell of low labor rates leads them straight to the border.

Of the hundreds of companies that I talked to about setting up an operation in Mexico, I can think of only one or two that were doing it strictly to increase their profits. These were privately owned companies whose owners welcomed the risk and thought that it was acceptable given the potential rewards. I have never seen a publicly held company evaluate Mexico strictly for increased profits alone. There were always other mitigating circumstances that compelled them to look outside the U.S.

WHAT IS RIGHT AND WRONG WITH NAFTA?

First of all, I have not read the complete draft of NAFTA. At some 2,000 pages of legal jargon, it is clearly not meant to be understood by the average American. For the most part however, NAFTA appears to be conceptually sound, if you read only the preamble. Nobody would argue that it is in our best interest to have strong democratic neighbors on our borders. Neighbors with strong consuming economies that U.S. companies have access to.

The troubling part is in the implementation. Saying that some tariffs will be gradually phased out over a 15 year period while others will disappear overnight absolutely reeks of special interest influence. Using a "straight line" method of reducing all tariffs by 10% of their current rates over the next 10 years, while raising quotas on all categories by 25% per year with total elimination occurring after the 10th year, would have provided a smoother transition. A small amount of additional incentive would have occurred each year, offset by the inevitable increase in the prevailing wage rates. The end result would be very close to being the same as what would happen if we did not ratify NAFTA. Only a slight increase of jobs moving south would occur above the rate that would be normally expected in the Maquiladora sector.

The other troubling aspect is the timing. Had NAFTA been submitted for approval anytime before 1990, little if any objections would have registered. However, in such a depressed economy, teetering on an exceptionally fragile recovery, it has the potential for a major disaster. It is widely recognized that IN THEORY, NAFTA should be beneficial for the U.S. economy. But those benefits will take some time to develop. In the immediate time frame, and IN REALITY, NAFTA will be directly responsible for the lose of additional jobs in this country. The fragile recovery could be brought to a standstill, or worst, we could plunge back into a full scale recession. If NAFTA is good now, it should be equally as good three to four years from now. Why not wait and let the recovery be complete before rocking the boat?

Equally as troubling is the one sided approach that Mexico is taking by falling back on their constitution to say that certain industries there are protected or reserved only for Mexican citizens. Or that foreign investment can not exceed 49 percent ownership of a company there. The mark of a truly democratic society is the ability to stand up and say "Times have changed, this is a new day, we must change our ways to live in this new world." And when once in awhile, for the good of the people, even a constitutional amendment is necessary. I think what this really is, is one of the oldest (and obviously effective) tricks in the negotiating book, to fall back on a position of "It's not within my power to agree to that point!", or, "I don't have the authority to agree to that point!".

As stated earlier, there are some legitimate reasons for certain companies to send their manufacturing to Mexico. The most prevalent being the intense competition from non-North American countries. Companies are usually faced with one of two choices. Stand up and fight back by reducing their cost of manufacturing, or form an agreement to have the competitor make their goods under private label. In either case, manufacturing jobs in the

U.S. take a beating. But there is a big difference. When jobs go to the Far East, the only time we see that money return is when they buy our real estate or banks. At least when the money goes to Mexico, we can expect to see some portion come back when they purchase our goods, services and vacation in this country. In a nutshell, I wish that we never lost a job in the U.S. But if jobs must leave the U.S., I would rather see them stay on this continent as opposed to going across the big pond. It seems to me that our first priority should be a strong United States, followed by a strong North America.

<u>The disruption factor.</u>

Since 1985, there have been numerous occasions where we saw an increased interest in manufacturing in Mexico. It usually centered around legislative actions taken by the federal or state governments. California announced that they were raising their minimum wage -- our phone started to ring off the hook. The federal minimum wage was due to be raised -- our phone rang off the hook. The layoff notification law, the disabilities act, tightened EPA restrictions, new South Coast Air Quality Management District guidelines in Southern California, skyrocketing worker's compensation. In every case we experienced a short term increase in activity of people who were interested in Mexico. Surprisingly though, the flurry of activity did not follow the actual implementation of those laws or regulations, but directly corresponded to the coverage they were receiving in the newspapers, TV investigative programs, business magazines and the like. By the time the legislation became law, our quotation activity had already dropped back to normal levels and the interest had essentially passed. This is what I refer to as the Disruption Factor caused by media hype. It is somewhat artificial, in most cases an overreaction, and always bad news for the working men and women of this country. NAFTA is already making brokers' and shelter operators' phones ring off the hook in unprecedented fashion.

What makes it disruptive is that of all the companies that evaluated moving to Mexico, or even having a small presence there, less than 20 percent eventually made the move. Within 30 months, half of those would return to the U.S. because the operations in Mexico did not meet their expectations. It is this returning half that represents the unwarranted disruption. Jobs in the U.S. that should never have been eliminated in the first place.

Of the 30 plus companies that we either moved to Mexico or performed sub contract work for, clearly half of those did not even need to do something that drastic. One of my jobs was to assess the potential client's existing operations and determine what would be necessary to execute the move. Many times during this assessment period I would notice things that could have been done differently in their factory. Ways to reduce inventories, reduce scrap, improve productivity. In essence, help reduce the pressure that they were feeling that made them interested in Mexico. But I never said anything. My motivation was to get them into Mexico. That is where I made my money. On at least several occasions, I even moved operations that I knew full well were not ideally suited for Mexico. Ones that would more than likely fall into the category of returning within 30 months. And given the intense competition within our own industry, I can say without hesitation that every other broker or shelter plan operator would, and will do the same thing.

So for any free trade agreement to work properly we need to make sure that only those companies who have a legitimate need to reduce their product costs by reducing the direct labor content send those jobs south of the border. There are some out there and we must be realistic in helping them stay competitive in this new global economy. To successfully talk them out of going to Mexico and entice them to stay in the U.S. would only contribute to their complete demise. Then ALL the jobs in the company are lost, not just the direct labor.

Secondly, for the other companies who are struggling to remain competitive we need to help them evaluate the many avenues of cost reduction and profit improvement that are available in this country today. Whether this help comes in the form of sponsored seminars, direct help, or tax credits for having outside consultants make those studies; we must entice companies to exhaust all avenues of help before seeking the easy way out (so they think) of moving their manufacturing to a country with low labor rates.

We must be realistic. We will lose more manufacturing jobs. We must lose those manufacturing jobs for some companies to remain competitive in this global economy.

During the past 40 years, we benefited greatly from the development and exportation of spin off technologies from the arms race of the cold war. We developed the most powerful and efficient airplanes in the world and celebrated as we sold them to almost every developing country. Now we watch as they use those airplanes to fly goods into the U.S. that we never even imagined could compete with us. To see the true extent of this "reversal of fortune", simply go to San Francisco airport and watch the 747's come in from the far east loaded with cut flowers, severely depressing the flower growing business in California.

So how do you explain this to the thousands of U.S. workers who have lost their manufacturing jobs and the thousands more who probably will follow? "We have become a victim of our own technology. We let the genie out of the bottle, and now we can't get it back in!"

Distinguished Senators, I am a common citizen who is humbled by my presence here today. I would not profess to speak on the behalf of all Americans, but I have talked to many of them. To summarize their concerns and opinions I have prepared the following closing statement that I think best represents the current state of mind of a good portion of the American public. Both as private citizens, business owners and top corporate executives.

For years, we have lived on a pedestal. Our standard of living being not only the best in the world, but far ahead of the rest of the field. Some would argue "Way too far ahead of the rest of the field!". So in this new age of intense global competition, maybe we need to come down from the pedestal and take up a new position. Say, on the top row of the choir. Next to our neighbors and friends acting in unison towards common objectives. Seeking harmony but willing to step forward for a virtuoso when the score requires it.

We recognize the need for a strong North America and hope that Mexico makes the transition upwards from that of a developing nation. We understand the need for, and in fact look forward to a bilateral free trade agreement with our neighbors. But unfortunately, the North American Free Trade Agreement, as it is currently drafted and anticipated, is not it. What it more closely resembles is an Economic Trojan Horse. And in true American political fashion, the special interest groups have already opened the city gates.

Testimony of

Jerry Lundy

Subcommittee on Oversight of Government Management
Hearing on

"Will Jobs Be America's Biggest Export Under NAFTA?"

Thursday, April 1, 1993

Page 1

American Companies Relocating to a Maquiladora Plant in Mexico

I would first like to express my appreciation for this opportunity to appear in front of this committee to voice my experience and feelings on this subject.

I was born and still live in Dowagiac, Michigan, which is where Sundstrand/ Modine was located. I had worked at this plant for 27 1/2 years, 6 years in the union and 21 1/2 in management. I was a devoted company employee who believed in the company. I am very grateful for the wages and benefits given to me and my family during those 27 1/2 years.

What employees were told about the move in the beginning:
The start of this move began early in 1987 with rumors that Sundstrand was going to move part of its manufacturing jobs from Dowagiac to the Maquiladora plant in Mexico for the following reasons:

1. Competition was underselling us and we were losing some of our market share.
2. Profit margins were lower than they have been in the past.
3. Productivity was down in the Dowagiac plant. Nobody, including management, believed this would really happen. We were told a few years earlier that the plant would be moved to a Southern state and nothing ever came of it. Within a few months, a plant site was picked and a team of twelve employees (ten management and two union employees) were selected to move to Larado, Texas. What started as a rumor was now becoming a reality. We were told that there would be around 130 jobs lost to Mexico. But the

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Remaining jobs would stay in Dowagiac. We were assured many times by the company that the remaining jobs would stay in Dowagiac. Everyone lived in fear of losing their job from this time until they actually did lose their job.

Roles that employees experienced in the move:

1. Almost everyone had a hand in cleaning up and packing equipment up for shipment to Mexico.
2. Employees watched as their co-workers and the machines went out the door one by one until it was their turn. This is like a very slow death.
3. In the end, it was decided to move my department (the R & D Model Shop) to plant #2 in Missouri. They sent employees plus my replacement up for training. I can honestly say that we trained them with sincerity and walked out the door with our heads held high. The day before I left for my new career in Canada, I received a telephone call at home from my replacement thanking us again for being totally honest and helpful during the training period.

My Contact with Mexico:

Because of my position, I was in contact with Mexico and our customers. I also was sent down to Mexico in 1989 for training their employees to operate and set up a piece of equipment that would save the company thousands of dollars in set-up expenses. I do know that quality was a major concern of all our customers, expecially from the Mexico plant. The quality of our product from the Mexico plant did cause us problems with some major customers, as we did lose market share with them.

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What happened to me and my co-workers after the lay-off:

My mother, two brothers, one sister-in-law, my wife and myself were terminated because of this move. Mother was forced to retire three years early. One brother is now facing bankruptcy, and will probably lose his home. One brother has worked at many different jobs and is presently struggling just to survive.

For myself and family, we are among the few lucky ones. We bought a hunting and fishing camp in Ontario, Canada. This was a dream I have had all my life. I can honestly say we are happier now than ever before. Our termination was a blessing in disguise, because it forced me to make a decision, which was to pursue my dream. I am aware of others who have been successful and are happy, but unfortunately, for every successful story there are fifty stories of total disaster.

My friends and co-workers are:

1. Working low-paying jobs, most without any benefits. The majority do not even have medical insurance, nor can they afford to buy it.
2. Some have lost their marriages, homes, cars.
3. Lost all their self-esteem.
4. I have yet to talk to anyone who doesn't feel they were lied to and given the shaft by the company. They took the best years of our lives, and as long as the profits were good, that was OK. But as soon as times got tough, we were all dumped like a sack of potatoes.
5. Because we were lied to about our jobs staying in Dowagiac, employees continued to spend their income as if they would have a good job. I personally spent $15,000.00 on luxury items for my family)pool and decks) which I never would have spent

if they would have been honest with me.

Conclusion:

I went from being a devoted company employee who believed what the company said to one who would never trust the company again. We have had our pensions changed drastically to the point where we can't even think about drawing it until age 65. Because I was on the committee to sue Sundstrand for reducing our pensions, I also want to go on record to say I don't want to be singled out for being here today and suffer even more reductions to my pension because I am here. I totally put the blame of this move on the company because:

1. They never gave the employees the opportunity to take cuts in wages and benefits BEFORE the decision was made to move the plant. (After the decision was made, they did.)
2. Greed and profit margins are the only things important to this company with no consideration toward hundreds of loyal employees who gave them large profits during the good times.

When Modine entered the picture and bought us in October, 1990, we received three letters (copies enclosed). We were told by Sundstrand that this sale was in the best interest of the employees.

August 30, 1990 - All active Sundstrand employees will be employed by Modine. Modine intends to operate our business with the current management we have today.

October 18, 1990 - We look forward to a long and fruitful relationship together at Modine.

January 17, 1991 - Bye-Bye, you are going to be terminated.

So much for our trust in Modine.

MODINE

Richard T. Savage
President and Chief Operating Officer

August 30, 1990

To: All Active Sundstrand Heat Transfer and
Tubular Products Employees

Welcome to new opportunities with Modine! Last week, we signed a definitive purchase agreement with Sundstrand Corporation regarding the transaction announced several weeks ago. At this time, all of the details leading up to the sale have not yet been brought to a conclusion, but we expect to meet our mid-October closing schedule.

We at Modine are pleased with how your operations fit together with ours and with the expanded business prospects this acquisition represents. Modine is an independent, worldwide leader in heat-transfer technology, serving vehicular, industrial, and building HVAC markets. The addition of the Sundstrand Heat Transfer products expands our product offering, our sales and profit opportunities and the chances for each of us to grow and prosper. We hope that you, the active Sundstrand Heat Transfer and Tubular Products employees, will join with us in making the newly acquired division one of Modine's most successful operations. All active Sundstrand Heat Transfer and Tubular Products employees will be employed by Modine upon completion of the transaction.

We realize that this can be a particularly apprehensive time for you as your division moves from Sundstrand to Modine. Please be assured that it is Modine's intention to operate the business as a separate entity with the current management and organization structure you have today. It is our goal to make the transition to Modine as smoothly and rapidly as possible. I look forward to our mutual success in the future.

R. Savage

R. T. Savage
President & Chief Operating Officer

Modine Manufacturing Company
1500 DeKoven Avenue
Racine, Wisconsin 53403

Telephone 414/636 1200
Telex: 26-4447
Fax 414/636-1424

MODINE

October 18, 1990

New Modine Manufacturing Company Employees
Commercial Products Division
Modine Heat Transfer, Inc.
Dowagiac, Michigan

Dear fellow employee:

Welcome to Modine Manufacturing Company! We're genuinely happy that you have joined us.

Part of your name has been "heat transfer" -- now, you're joining a company whose name is practically synonymous with heat transfer. Modine has compiled a 75-year history of successfully developing, manufacturing, and marketing heat exchangers. That's our business, we know it well, and we are known for it worldwide. Modine is an independent leader in heat-transfer, serving vehicular, industrial, and building heating-ventilating-air-conditioning markets. The merging of your business with ours strengthens our joint market offering, our technology, and our prominence in all aspects of heat transfer -- on-highway, off-highway, and in commercial and residential properties.

You've become part of a proud association of more than 5,000 Modine employees working at more than 40 locations around the globe. We make products from the same materials that you do, probably work with the same type of equipment and in similar manufacturing facilities. People are the reason Modine has been able to meet the challenges of today and to remain on a long-term path of growth.

On behalf of all your fellow employees, I send you a cordial greeting. We look forward to a long and fruitful relationship together at Modine.

Sincerely,

Victor S. Frangopoulos

Victor S. Frangopoulos
Group, Vice President
Off-Highway Products
October 18, 1990

Modine Manufacturing Company
1500 DeKoven Avenue
Racine, Wisconsin 53403

Telephone 414-636-1200
Telex 26-4447
Fax 414-636-1424

MODINE

January 17, 1991

Jerry Lundy

Following a period of careful review, we have decided that it is in the best long term interest for the Commercial Products Division to consolidate the division support staff functions with the Modine corporate offices. We will reorganize into a division support staff located in Racine and a plant support staff remaining in Dowagiac. This reorganization will result in eliminating the duplication of some functions and the transfer of other functions from Dowagiac to Racine as well as completing the final stages of the transfer of work to Nuevo Laredo. As a result, some employees will be terminated. Those employees will be assisted in finding new employment opportunity.

Based upon the information currently available to us, we anticipate that your employment will be terminated. The reorganization should occur between now and July. We will provide you with timely advance notice of your expected termination date.

We will assist you in seeking new employment opportunity including outplacement counseling, resume preparation, and contacting other employers. You will receive severance pay in an amount equal to one week's pay for each year of service to a maximum of thirteen weeks if you continue at work through the date your services are no longer required.

We regret that this action has to be taken. We will assist you in the transition to new employment, answer any questions you may have and work with you during the coming months.

Please contact Steve Aykroyd at Extension 343 with any questions you may have and to begin the outplacement process.

Sincerely,

Lloyd Larson

Lloyd Larson
Vice President &
General Manager

Commercial Products Division
Modine Heat Transfer, Inc
415 East Prairie Ronde Street
Dowagiac, Michigan 49047
Telephone 616-782-2141
Fax 616-782-8538

DEPORTATION OF JOBS TO MEXICO

My name is Scarlet Bachmann and I am a 48 year old wife, mother and grandmother who is a victim of the United States jobs moving to Mexico. I worked at Sundstrand Heat Transfer from October of 1968 to January 1991. Even though the company changed names three times during the employment period the workers remained the same. Due to the factory moving the majority of its jobs to Mexico, I joined the dislocated, misplaced unemployed Americans. I am hoping to relate to you the devastating experiences myself and many other people from just one factory experienced.

After losing my job in January 1991 I started the frustrating journey of pursuing a job that was not factory oriented. I still had several years to work before reaching retirement age and I felt that over 22 years of my life was enough to give to a job that left me depressed, frustrated and unemployed. I had the advantage of a good education background and so proceeded down the channels to pursue a new career. After testing at the MESC office and several meetings with Carol Churchill, Director of Career Work Experience Programs at the local college, I was ready for my placement tests. Since I had been laid off twice from September 1990 to January 1991, I lived in fear that I would be called back to work for a short time and my schooling would be interrupted. I prolonged my college career until July 1991 but time was running out and if I didn't start

classes soon I would not have enough time to complete my college program.

I was required to be a full-time student and maintain a "C" average in all my classes. My schedule consisted of computer, typing, english, accounting, medical terminology and many other classes. I was not allowed to change my schedule or put my education on hold to go back to work even for a short period of time. Once I left the program for any reason, I would not be eligible to continue at a later date. I knew several people who had started school or gotten other jobs and were called back for short periods of time and lost their new job or their schooling, and sometimes both.

I had been out of school for thirty years and the next year was not easy, but I was determined to succeed and even managed to be on the Dean's List. The sad part of it is, I am not in the majority, most of the people I had worked with could not meet the qualifications for the programs available. They were good workers but did not have the education to qualify. Even those who attended trade school could not find jobs, and those who did worked for minimum wage. My best friend at the age of 58 is forced to work two jobs at minimum wage to survive and can't even get two consecutive days off in a week.

This factory, that most of the employees had given their best working years to, played with our lives for over two years. The Warren Act required the company to send out a list sixty days before a person lost their job, but that

didn't mean that in sixty days you could pick up the pieces and go on with your life. Some people saw their names on this list four or more times before they actually lost their job. Then there were people like me whose name never made the list. My job stayed in Dowagiac, but someone else who lost their job to Mexico came along and took mine. When severance pay was distributed I was denied mine because the company said my job was still here and I was not affected by the Mexico move. But who was and still is doing my job now?

The whole community has suffered the effects of the move and only when you are able to step back and look at the situation can you see the real effect it has had. Many people who were once friends ended up bitter enemies. It was like throwing a raw bone to 50 dogs and seeing who was going to come out on top. Imagine 1200 people employed in 1968 and now 1993 only 75-80 left (this is actual factory workers, not office help).

People were asked to help crate equipment and load up trucks that were bound for Mexico, and even when the Mexico plant faltered and fell behind with orders, they called on the Dowagiac factory people to help get production out so that orders would not be lost. Hoping we could prove that we were still needed and maybe Mexico would fail, our dedication to our lifetime job prevailed, but we only prolonged our devastation.

For those like myself who were fortunate enough to get another job the battle was not over with. I went from $10.37 per

hr. to $5.88, and no matter how great my strategy the bills fell behind. Drawing unemployment the year I was in school helped, but when it was time to pay state and federal taxes our savings account was wiped out. We were still luckier than some of our friends who had to re-mortgage their homes, or make installment payments to the government. It wasn't like we didn't have enough bills to cope with.

There were several married couples who both worked at the factory, they were hit twice. My husband and I were one of those couples and in November 1992 he lost his job. I blame Mexico, the company blames alcohol. I am not saying it drove him to drinking, however being an alcoholic and the stress of going through this ordeal with me and having such unsteady work as the past few years had been his trust and belief in the company was lost and it was easier to drink than fight anymore. The point is, we all handle our problems in a different way and not everyone can handle stress as well as I did. Presently my husband is working for $5.00 per hr. and would rather stay with this new company than trust a skeleton factory that has given most of its work to Mexico.

When statistics show unemployment down, it's too bad the real picture isn't shown. Where are the people who have run out of benefits and still not found work? Those are the people who should be telling their stories as they have many more losses than I have. It was only by the grace of God and a very mean and stubborn streak that I came out as well

as I did. When they denied me the severance pay I vowed to beat them. Two years have passed and I live with the satisfaction that they can't bother me anymore. Everyday I thank the people who have helped me along the way. I hope that I in return can help others and to help do this I am asking that the government and anyone else that can stop jobs from being deported to foreign countries. My job at Lee Memorial Hospital will probably never be moved to Mexico and maybe that's why I chose to work at a hospital, but there are still many jobs out there that can be lost without some help to keep them in our country.

A recent article in the local newspaper quoted Modine's personnel manager as saying "we are alive and well and want to be recognized by the community and put the mourning to rest." The majority of former employees are not dead only badly beaten. Don't mourn us, help us pick up the pieces. When Modine took over Sundstrand in 1990 they made us believe that it was best for us, but the seniority list has went from 180 people to 80 in only two years, it looks as though Mexico has ate up too many of the jobs and Modine is dying a slow death.

It has been a long time since the Boston Tea Party and our country has come a long way since then, but a working nation can't work without jobs. If you think you haven't been affected by the loss of jobs to foreign countries, then you are only fooling yourself. Some suffer more than others, but we are all suffering.

TESTIMONY OF
HARRY BROWNE, RESEARCH ASSOCIATE
INTER-HEMISPHERIC EDUCATION RESOURCE CENTER

BEFORE THE
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT
OF THE
COMMITTEE ON GOVERNMENTAL AFFAIRS
OF THE
UNITED STATES SENATE

APRIL 1, 1993

Good morning. My name is Harry Browne and I am a research associate at the Inter-Hemispheric Education Resource Center in Albuquerque, New Mexico. I would like to thank you and your staff for organizing these hearings and for inviting us to testify. The Resource Center provides information and analysis to community leaders, labor activists, and--when the occasion arises--to national policymakers. In the last decade we have focused largely on U.S. relations with Central American countries and Mexico.

The Resource Center's work on U.S. foreign policy and private-sector economic relations has made us aware of the extent to which the U.S. manufacturing base is moving offshore. Our government has promoted the movement of manufacturing abroad through provisions of U.S. tax and tariff laws such as the Offshore Assembly Provision--now known as HTS 9802--and the exemption of overseas profits from taxes as long as those profits are reinvested abroad, as well as through the Overseas Private Insurance Corporation. Furthermore, U.S. policy has strongly pushed the governments of developing countries to open their economies to foreign investment and to provide tax and infrastructural incentives to attract firms from the United States and other countries.

In researching this issue further, we discovered that despite its active role in the relocation of manufacturing our government could tell us nothing about its real-life effects on workers and the economy as a whole. No agency had attempted to correlate plant closings with U.S. manufacturing investment in low-wage countries, for example, or to document the downward pressure such relocations have placed on the wage levels negotiated by workers and unions who increasingly find themselves competing with low-wage, foreign employees of their own corporations.

The closest thing to such an effort was the compilation of quarterly Mass Layoff Reports by the Bureau of Labor Statistics. Begun in 1985, these reports were based on the voluntary participation of state employment agencies; by last year 49 states and the District of Columbia had signed on. But these reports were rendered useless for tracking manufacturing relocation for two reasons. First, they relied on self-reporting by corporations of the reasons for a given layoff event. In 1988, for example, only nine events were due to overseas relocation anywhere, according to the report. But our research, which probably misses one-third to one-half of all runaways, identified 25 work sites losing jobs that year to Mexico alone. Second, the BLS reports were aggregated by state and industry and provided no company-specific data. This made it impossible to verify the reasons given for a given layoff or closing. Further, there was no distinction made between a relocation to Mexico and one to Canada, despite the very different implications each would carry about U.S. policy and economic competitiveness. The BLS placed the effort on hold last November.

Instead of conducting down-to-earth studies, administration officials relied on econometric modeling to reassure themselves and others that facilitating plant relocation would improve economic efficiency and generate net gains for this country and the world as a whole. These models are fundamentally flawed by assumptions that you and I know to be unreal, such as full employment, fully competitive markets, and universal adherence to free market principles by our trading partners. Most relevant to this hearing is the fact that the theory of comparative advantage, upon which free trade advocates rest their arguments, is rendered obsolete by high capital mobility. As our new Secretary of Labor has argued, we cannot consider our capital stock or our technological lead to be "ours" anymore, since both are freely transferred around the globe. And we certainly cannot depend on "U.S." capital and technology by themselves to replace the jobs that runaway plants take with them with better-paying, more productive employment. As just one example of U.S. capital creating highly productive employment in a low-wage country rather than here at home I offer Ford Motor Company's recent investment of $1 billion to add capacity and flexibility to its state-of-the-art plants in Hermosillo and Chihuahua, Mexico.

I would like to suggest two reasons for the failure of the U.S. government to collect such critical information on the functioning of the national economy. The first is the understandable desire of the last two administrations to downplay the extent of human suffering attributable to their free market and anti-labor policies. A sympathetic researcher in the Department of Labor helped confirm this suspicion by telling us that the department "has steered clear of that subject" under presidents Bush and Reagan. The second reason stems from free market ideology itself, which refuses to acknowledge that government can and should concern itself with monitoring and ameliorating the effects of such "microeconomic" events as plant closings. This position, of course, was a principal source of opposition to the 1988 WARN Act.

In pursuit of solid information about what we call "runaway" plants, the Resource Center launched a year long investigation funded by the Norman Foundation in New York and the John D. and Catherine T. MacArthur Foundation in Chicago. I have submitted to the subcommittee a preliminary list of some 107 work sites identified by this research as having suffered a loss of employment as a result of a direct shift of work from the United States to Mexico.

We believe it is critical to see these runaways in the light of a globalizing economy that is following the lines laid out for it by the pro-free trade governments of the world's major industrialized nations. We have focused on Mexico both because of the pending North American Free Trade Agreement and because Mexico is by far the dominant location for offshore production-sharing by U.S.-based manufacturers.

It is our strong hope that the list will not be used to attack Mexican workers. Far from "stealing" U.S. jobs--as some in the labor movement have charged--Mexican workers find themselves forced by their own government's neoliberal economic policies to compete with their un-and underemployed compatriots and with counterparts throughout the world for the favor of international investment capital.

Our research project began as part of our effort to understand the ramifications of the proposed North American Free Trade Agreement. Two of the primary concerns voiced by NAFTA's opponents center on the fact that an agreement would enhance U.S. capital's ability and willingness to cross the Mexican border. Labor advocates, environmentalists, and others argue that

:ater capital mobility will accelerate the movement of manufacturing jobs ›m the United States to Mexico and encourage corporations to avoid relatively ·ict U.S. environmental laws and regulations by shipping their most highly lluting operations south.

In making these points NAFTA opponents have relied largely on common nse and anecdotal evidence. The latter comes from high-profile cases such as :nith's large-scale and on-going move from Iowa, Indiana, Illinois, and issouri to Ciudad Juárez and Reynosa, and less well-known examples such Sonocal's decision to move its lime plant from Naco, Arizona, to Naco, ›nora, after the EPA shut it down for particulate noncompliance in 1976.[1] though both common sense and anecdotal evidence can be persuasive, we lt that a comprehensive list of production that had moved to Mexico in the st decade would make pro-worker and -environment arguments even more ›mpelling.

In compiling our list--which now numbers 216--we have intentionally nitted three of the principal means by which U.S. jobs *indirectly* move abroad:

-- "Outsourcing." This refers to a decision to halt production in the nited States as part of a decision to purchase certain materials or ›mponents from independent suppliers rather than producing them in-house. his problem is particularly acute in the apparel industry since a large roportion of the clothes we wear are made by subcontractors. Liz Claiborne, ›r example, employed only 250 people in manufacturing in 1986, relying ıstead on dozens of independent shops in several countries, including lexico.[2] It would be very difficult for an outside observer to track the firm's hifting supplier base, much less to determine which shifts should be counted s runaway production.

-- Conversion from manufacturer to importer. In the extreme form of utsourcing a company retains its distribution and marketing networks but ets out of the business of making things altogether. Many U.S. consumer lectronics firms have taken this route. After finding their manufacturing profit

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Dick Kamp, "Lime Dust in My Children's Lungs," Testimony before the EPA, September 26, 1991, Nogales, Arizona.

John H. Wilson, "And Now, the Post-industrial Corporation," *Business Week*, March 3, 1986, pp 64-71.

margins undercut by imports they focus on the more lucrative business of selling--often hawking their former competitors' products. Even the marketing activity can be short-lived, however; once the U.S. firms have established consumer demand for a given product, the foreign manufacturer often decides to sell its own goods under its own name, and is in a good position to undercut its U.S. partner's retail prices.

-- Declining employment due to import competition. In the apparel industry, one of the hardest hit by low-cost imports, the partial relaxation of U.S. import controls has meant that foreign garments now account for 60 percent of all apparel sold in the United States, compared to 20 percent in 1970. According to a union researcher this surge in imports has cost U.S. workers some 425,000 jobs over last 20 years.[3]

In choosing to list only those plants where a direct production shift took place, we are also ignoring the opportunity cost to the U.S. economy of jobs created in Mexico by the expansion of activities there rather than in the United States. Thus Cummins Engine's 1991 decision to set up two new crankshaft lines in its state-of-the-art facility in San Luis Potosí rather than in Fostoria, OH--or other U.S. plants that could perform the work--does not appear in our list.

Compiling the list proved to be a tremendous challenge and it is very likely that we have identified fewer than half the U.S. work sites that have lost some or all of their production jobs to Mexican plants. There are a number of reasons for this:

-- Few corporations broadcast their intention to send jobs to Mexico, viewing the move as a potential public relations liability. The response of an executive with defense contractor Teledyne Ryan to questions about his firm's two maquiladoras was typical: "The company regards (its Mexico operations) as a proprietary matter, and (company officials) have no comment."[4]

-- Runaway production rarely follows the classic pattern of a closing in

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[3] James Parrot, "Fashioning an Industrial Strategy for Garment Workers," *Saving Manufacturing: Labor Research Review #19*, p. 56)

[4] Quoted in Elizabeth Douglass, "Defense Firms Look to Mexico," *San Diego Tribune*, May 15, 1989, p. AA-1. Some companies make a different calculation, publicizing a move to Mexico in order to gain bargaining leverage over unions or local governments or to dramaticize what they see as failings in national or state economic policies.

the U.S. accompanied by a new facility making the same product in Mexico. Instead it often occurs through a gradual decline in orders filled by one plant and a gradual buildup of work assigned to another. Tracing such a shift may be further complicated by an upgrade of the item being produced: production of the obsolete version is allowed to taper off in one location as production of the newer model expands abroad.

-- Runaway production can happen as part of a "consolidation," "rationalization," or "restructuring" of productive activities that resembles a shell game with production being split and shuffled among numerous plants.

We began by establishing a database of foreign-owned manufacturers in Mexico whose production is geared to the U.S. market. The export orientation of the firms is crucial; we wanted to target companies that replaced U.S. workers with Mexican workers but continued to sell their products or services to the same U.S. customers. To make the task more manageable we excluded plants with fewer than 50 employees from our database.

Gathering complete and accurate data for Mexican manufacturing operations was a painstaking task, but it was far more difficult to gather systematic information about plant closings or permanent layoffs in the United States. Before 1989 employers were under no obligation to make public their layoffs or shutdowns. Since the Worker Adjustment and Retraining Notification (WARN) Act took effect early that year, each state has maintained lists of closings and large-scale layoffs.

But the WARN Act is shot through with loopholes that greatly weaken its usefulness to the workers and researchers. As the General Accounting Office recently reported, a great many of the mass layoffs the act was intended to cover go unreported. From a researcher's perspective, even worse is the absence of useful information included in WARN listings and the inaccessibility of these listings to the public in several states. Only a handful of states--Wisconsin, North Carolina, and Illinois stand out--provide information about the product or industry involved in a layoff or shutdown. Nearly one-half fail to differentiate among shutdowns, permanent layoffs, and temporary layoffs. And ten states, including California, either refuse to release their lists in any form or make it too costly or difficult to obtain.

Lacking a systematic approach to the problem, we turned to various computer-based and paper indexes and databases covering business, industry,

and general topics. We sent nearly 700 names of corporations to the DataCenter in Oakland, California, which has been cataloging plant closings across the nation since 1977. We scoured the printed indexes of major newspapers of record--including the *Wall Street Journal*, the *Washington Post*, and the *New York Times*--through the 1980s. For more recent years we used Dialog Information Services' on-line Knowledge Index, which offers complete text access to 33 newspapers, and Predicast's F&S Index Plus Text on CD-ROM. The most productive source of information on U.S. closings and layoffs, however, was a little-known service called NewsBank, with headquarters in New Canaan, Connecticut. NewsBank's Business Journal Index offers microfiche copies of over 200 local business-oriented publications from all 50 states, the District of Columbia, and Puerto Rico. Because they are generally based in small towns, these publications often provide details on layoffs and closings that are left out of larger papers or magazines.

We also contacted the research departments of the ten major unions we believed are most affected by the movement of manufacturing jobs to Mexico. Two of the unions--the International Brotherhood of Electrical Workers (IBEW) and the International Union of Elecronic, Electrical, Salaried, Machine and Furniture Workers (IUE)--had undertaken systematic surveys of their locals, and another--the Amalgamated Clothing and Textile Workers Union--had compiled a list of examples. The AFL-CIO had also put together a list of 38 affected plants. Unfortunately, the local officials responding to the IBEW and IUE surveys--dozens of whom we interviewed--often did not know exactly where in Mexico their corporate employers had sent the work.[5]

The foregoing caveats make it clear that the attached list represents only a small portion of the flight of U.S. jobs to Mexico. And Mexico has received only a portion of all U.S. jobs shipped overseas. Nevertheless it is an instructive list, and it illustrates the breadth of jobs and regions affected by runaway employers. The challenge of slowing the drain of manufacturing employment is

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[5] The local officials should not be faulted for this lack of information, however. As noted earlier, corporate spokespeople frequently refuse to reveal where production is moving, and often flat-out lie about its destination or the reasons for a cutback. One industrious unionist at AT&T's Radford, Virginia plant was forced to play detective with the company's shipping invoices to confirm his suspicion that an AT&T facility in Mexico was producing parts that had formerly been made in Radford. See Michael Martz, "Union's Charge About Mexico Has Deep Effect," *Richmond Times-Dispatch*, August 16, 1992, p. E-1.

a great one. But one very important place to start is in strengthening the abilities of local governments, community groups, and workers to respond to threatened plant closures. The Resource Center does not take positions on specific legislative initiatives, but we would encourage you and your colleagues to balance the rights of private investors to do what they want with their capital with the rights of workers and communities to participate in or at least be informed about decisions that affect their fundamental interests.

RUNAWAY AMERICA

PRELIMINARY REPORT

A list of U.S. corporations that have moved to Mexico

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This preliminary list is excerpted from the forthcoming book *Runaway America: U.S. Jobs and Factories on the Move* by Harry Browne and Beth Sims.

The Resource Center is a non-profit organization that since 1979 has examined U.S. foreign relations with Mexico, Central America, and the Caribbean.

Methodology ○ Introduction

Attached are the preliminary results of the Resource Center's year-long investigation into the shift of manufacturing jobs from the United States to Mexico. We believe it is critical to see this shift in the light of a globalizing economy that is following the lines laid out for it by the pro-business governments of the world's major industrialized nations. We have focused on Mexico both because of the pending North American Free Trade Agreement and because Mexico is by far the dominant location for offshore production-sharing by U.S.-based manufacturers. It is our strong hope that the list will not be used to attack Mexican workers, who far from "stealing" U.S. jobs find themselves forced by their own government's neoliberal economic policies to compete with their un-and underemployed compatriots and with counterparts throughout the world for the favor of international investment capital.

We will publish a larger, updated list of runaway plants in book form in May, 1993. *Runaway America: U.S. Jobs and Factories on the Move* will provide background on international economic integration, Mexico's *maquiladora* sector, and the costs to workers and communities of U.S. deindustrialization. It will also analyze the reasons corporations move to low-wage export platforms and will look at the alternatives available on the local, national, and international levels to force corporations to be accountable to their workers and communities.

Runaway America began as an offshoot of the Resource Center's efforts to understand the ramifications of the proposed North American Free Trade Agreement. Two of the primary concerns voiced by NAFTA's opponents center on the fact that an agreement would enhance U.S. capital's ability and willingness to cross the Mexican border.[1] Labor advocates, environmentalists, and others argue that greater capital mobility will accelerate the movement of manufacturing jobs from the United States to Mexico and encourage corporations to avoid relatively strict U.S. environmental laws and regulations by shipping their most highly polluting operations south.

In making these points NAFTA opponents have relied largely on common sense and anecdotal evidence. The latter comes from high-profile cases such as Zenith's large-scale and on-going move from Iowa, Indiana, Illinois, and Missouri to Ciudad Juárez and Reynosa and less well-known examples such as Sonocal's decision to move its lime plant from Naco, Arizona, to Naco, Sonora, after the EPA shut it down for particulate noncompliance in 1976.[2] Although both common sense and anecdotal evidence can be persuasive—and indeed are sufficiently powerful to put NAFTA's congressional fate in doubt—we felt that a comprehensive list of production that had moved to Mexico in the last decade would make pro-worker and -environment arguments even more compelling.

We have selected a relatively narrow definition of "runaway production": a long-term net reduction in employment at a U.S. facility accompanied by an expansion of employment at a new or existing Mexican facility producing an identical or updated good or service and controlled by the same parent company.

It should be emphasized that this definition intentionally omits three of the principal means by which U.S. jobs *indirectly* move abroad:

- "Outsourcing." This refers to a decision to halt production in the United States as part of a decision to purchase certain materials or components from independent suppliers rather than producing them in-house. This problem is particularly acute in the apparel industry since a large proportion of the clothes we wear are made by subcontractors. Liz Claiborne, for example, employed only 250 people in manufacturing in 1986, relying instead on dozens of independent shops in several countries, including Mexico.[3] It would be very difficult for an outside observer to track the firm's shifting supplier base, much less to determine which shifts should be counted as runaway production.

- Conversion from manufacturer to importer. In the extreme form of outsourcing a company retains its distribution and marketing networks but gets out of the business of making things

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altogether. Many U.S. consumer electronics firms have taken this route. After finding their manufacturing profit margins undercut by imports they focus on the more lucrative business of selling—often hawking their former competitors' products. Even the marketing activity can be short-lived, however; once the U.S. firms have established consumer demand for a given product, the foreign manufacturer often decides to sell its own goods under its own name, and is in a good position to undercut its U.S. partner's retail prices.

– Declining employment due to import competition. In the apparel industry, one of the hardest hit by low-cost imports, the partial relaxation of U.S. import controls has meant that foreign garments now account for 60 percent of all apparel sold in the United States, compared to 20 percent in 1970. According to a union researcher this surge in imports has cost U.S. workers some 425,000 jobs over last 20 years.[4]

In choosing to list only those plants where a direct production shift took place, we are also ignoring the opportunity cost to the U.S. economy of jobs created in Mexico by the expansion of activities there rather than in the United States. Thus Cummins Engine's 1991 decision to set up two new crankshaft lines in its state-of-the-art facility in San Luis Potosí rather than in Fostoria, OH—or other U.S. plants that could perform the work—does not appear in our list.

Compiling the list proved to be a tremendous challenge and it is very likely that we have identified fewer than half the U.S. work sites that have lost some or all of their production jobs to Mexican plants. There are a number of reasons for this:

– Few corporations broadcast their intention to send jobs to Mexico, viewing the move as a potential public relations liability. The response of an executive with defense contractor Teledyne Ryan to questions about his firm's two maquiladoras was typical: "The company regards (its Mexico operations) as a proprietary matter, and (company officials) have no comment."[5]

– Runaway production rarely follows the classic pattern of a closing in the U.S. accompanied by a new facility making the same product in Mexico. Instead it often occurs through a gradual decline in orders filled by one plant and a gradual buildup of work assigned to another. Tracing such a shift may be further complicated by an upgrade of the item being produced; production of the obsolete version is allowed to taper off in one location as production of the newer model expands abroad.

– Runaway production can happen as part of a "consolidation," "rationalization," or "restructuring" of productive activities that resembles a shell game with production being split and shuffled among numerous plants.

We began by establishing a database of foreign-owned manufacturers in Mexico whose production is geared to the U.S. market. The export orientation of the firms is crucial; we wanted to target companies that replaced U.S. workers with Mexican workers but continued to sell their products or services to the same U.S. customers. We used several directories to gather information on foreign-owned manufacturers in Mexico, but by far the most useful was *The Complete Twin Plant Guide* (El Paso, TX: SOLUNET, 1991). To make the task more manageable we excluded plants with fewer than 50 employees from our database. Despite this restriction the list contains over 1,600 foreign-owned plants in Mexico. When available, we recorded each plant's primary products, the size of its work force, and the date it began operations.

Gathering complete and accurete data for Mexican manufacturing operations was a painstaking task, but it was far more difficult to gather systematic information about plant closings or permanent layoffs in the United States. Before 1989 employers were under no obligation to make public their layoffs or shutdowns. The Department of Labor collects data on mass layoffs, but this information is aggregated by state and industry and sheds no light on individual corporate activities. Since the Worker Adjustment and Retraining Notification (WARN) Act took effect in February 1989, each state has maintained lists of closings and large-scale layoffs. But the WARN Act is shot through with loopholes that greatly weaken its usefulness to the workers and researchers. Recent estimates indicate that well over half of the mass layoffs the act was

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intended to cover go unreported. From a researcher's perspective, even worse is the absence of useful information included in WARN listings and the inaccessibility of these listings to the public in several states. Only a handful of states—Wisconsin, North Carolina, and Illinois stand out—provide information about the product or industry involved in a layoff or shutdown. Nearly one-half fail to differentiate among shutdowns, permanent layoffs, and temporary layoffs. And ten states, including California, either refuse to release their lists in any form or make it too costly or difficult to obtain.

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The foregoing caveats make it clear that the attached list represents only a small portion of the flight of U.S. jobs to Mexico. And Mexico has received only a portion of all U.S. jobs shipped overseas. Nevertheless it is an instructive list, and it illustrates the breadth of jobs and regions affected by runaway employers. The list and the research behind it also highlight the failure of the U.S. government to collect critical information on the functioning of the national economy. This failure results from the desire to downplay the extent of human suffering attributable to neoliberal economic policies as well as from free market ideology, which refuses to acknowledge that government can and should concern itself with monitoring and ameliorating the effects of such "microeconomic" events as plant closings.

1. NAFTA would strengthen investor confidence in the staying power of Mexico's pro-business policies, phase out significant U.S. barriers to certain imports from Mexico, and shift the center of gravity of corporate distribution networks to the south by opening almost all Mexican markets to goods produced by foreign-owned plants.
2. Dick Kamp, "Lime Dust in My Children's Lungs," Testimony before the EPA, September 26, 1991, Nogales, Arizona.
3. John H. Wilson, "And Now, the Post-Industrial Corporation," *Business Week*, March 3, 1986, pp 64-71.
4. James Parrot, "Fashioning an Industrialist Strategy for Garment Workers," *Saving Manufacturing: Labor Research Review #19*, p. 58.
5. Quoted in Elizabeth Douglass, "Defense Firms Look to Mexico," *San Diego Tribune*, May 15, 1989, p. AA-1. Some companies make a different calculation, publicizing a move to Mexico in order to gain bargaining leverage over unions or local governments or to dramatize what they see as failings in national or state economic policies.
6. One systematic approach to tracking employment shifts within the United States would be to use Dun's Market Identifier files, which provide firm-specific information on manufacturing employment in localities across the country. This approach was used by Professor David Ranney of the University of Illinois at Chicago to document job loss at firms in the Chicago area that also operate Mexican facilities. But the expense of conducting such a survey across the country is prohibitive, and the information it generates reveals little about the reasons for job losses, giving the researcher important leads but requiring very considerable follow-up work.
7. The local officials should not be faulted for this lack of information, however. As noted earlier, corporate spokespeople frequently refuse to reveal where production is moving, and often flat-out lie about its destination or the reasons for a cutback. One industrious unionist at AT&T's Radford, Virginia, plant was forced to play detective with the company's shipping invoices to confirm his suspicion that an AT&T facility in Mexico was producing parts that had formerly been made in Radford. See Michael Martz, "Union's Charge About Mexico Has Deep Effect," *Richmond Times-Dispatch*, August 16, 1992, p. E-1

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THE RUNAWAYS

from the United States						to México		
PARENT COMPANY	SUBSIDIARY	LOCATION	PRODUCT/SERVICE	JOBS LOST [1]	DATE [2]	COMPANY	LOCATION	TOTAL EMPLY [3]
A.C. Nielsen Co.	Nielsen Clearing House	Clinton, IA, & Chicago Area	Coupon sorting	100+	1966-1986		Ciudad Juárez, Delicias, Chihuahua, Cuauhtémoc, Nuevo Laredo	9200
A.C. Nielsen Co.	Nielsen Clearing House	TX	Coupon processing	131	July 1990		•	•
A.O. Smith Corp.		Kankakee, IL	Water heaters	310	1988	Productos de Agua	Ciudad Juárez	350
A.O. Smith Corp.		Upper Sandusky, OH	Electric motors	550	1981-1991	10 electric motor/parts plants	Ciudad Juárez & Ciudad Acuña	5100
A.O. Smith Corp.		Tipp City, OH	Electric motors	1000	1980s	•	•	•
A.O. Smith Corp.		Mt. Sterling, KY	Electric motors	ca. 1000	1980-1992	•	•	•
AT&T		Radford, VA (Fairlawn)	Communications equipment	2000	Feb. 1990	AT&T Microelectrónica	Matamoros	2000
AT&T		Little Rock, AR	Telephone answering machines	470	1989	AT&T Productos de Consumo de México	Guadalajara	n/a
AT&T		Shreveport, LA	Telephone sets	100	1991-92			n/a
Airshield Inc.		Bridgeport, CT	Aerodynamic shields	40	1991		Matamoros	n/a
Allen-Bradley	•	Milwaukee, WI	Resistors	n/a	Early 1980s	Allen-Bradley Electrónica	Ciudad Juárez	285
Allied-Signal	Bendix Safety Restraints	Knoxville, TN	Seat belts	1200	1986	American Safety Bendix, Sistemas de Seguridad Bendix	Agua Prieta (2), Ciudad Juárez	1900
Allied-Signal	Bendix Safety Restraints	Greensville, TN	Seat belts	500	1986-1990	•	•	•
Alphabet Inc.	NCA Inc.	Durham, NC	Harnesses (for GM)	250	1987	Alfabed de México	Chihuahua	650
Artis Inc.	Aleene brand products	Buellton, CA	Arts & crafts materials	52	1991		Tijuana	n/a

[1] "JOBS LOST" reflects only those jobs at each work site that were sent to Mexico; "ca." indicates an estimation and "n/a" means the figure is not available. [2] A range of dates indicates that job losses were ongoing during the stated period of time. A "&" separates dates of one-time job losses. [3] "TOTAL EMPLY" gives the total number of employees at the location(s) listed in Mexico; "n/a" denotes that the information is unavailable.

THE RUNAWAYS

from the United States						to México		
PARENT COMPANY	SUBSIDIARY	LOCATION	PRODUCT/SERVICE	JOBS LOST[1]	DATE[2]	COMPANY	LOCATION	TOTAL EMPLY[3]
BRK Electronics	Pittway Corporation	Chicago, IL	Smoke detectors	400	1989-1992	Electrónica BRK de México	Ciudad Juárez	993
BTK Industries/Billy The Kid	Hortex,Inc	El Paso, TX	Apparel	400	1988-89	Manuf. de Ropa Laredo	Gómez Palacio (2)	n/a
BTR Dunlop PLC (UK)	Sensus Technologies	Uniontown, PA	Electronic components-water meters	138	1990-91		Ciudad Juárez	n/a
BTR PLC (UK)	Stewart-Warner Corp.	Spring Valley, IL	Auto speedometers	Up to 1000	1989-1991	Industrias Hage	Ciudad Juárez	n/a
BTR PLC (UK)	Stewart-Warner Corp.	Bridgeport, CT	Auto speedometers, etc.	ca. 700	1989-1991	•	•	•
BTR PLC (UK)	Stewart-Warner Corp.	Chicago, IL	Auto speedometers, etc.	ca. 700	1989-1991	•	•	•
Badger Meter		Milwaukee, WI	Utility meters	n/a		Badger Meter de México	Nogales	165
Baxter Health Care Corp.		Mahwah, NJ	Disposable hospital garments	105	1989	7 plants	Chihuahua, Mexicali, Ciudad Delicias, Ciudad Juárez	5400
Bayly Corp.		Sanger, CA	Apparel (OP, Bugle Boy)	ca. 350	1990	Bayly Mexicana	Allende, Coah.	610
Bayly Corp.		Visalia, CA	Apparel (OP, Bugle Boy)	ca. 250	1988	•	•	•
Becton Dickinson		Hancock, NY	Intravenous tubing	n/a	1984-88		Ciudad Juárez	n/a
Bemis Co. Inc.	Multi-Net Division	St. Louis, MO	Open-mesh bags	150	1987	Bemis Maral	San Luis Potosí	n/a
Briggs & Stratton		Wauwatosa, WI	Automotive locks	39	1992	Tecnología Briggs y Stratton	Ciudad Juárez	350
Brunswick Corp.	Force Outboards	Hartford, WI	Outboard motors (40+ hp)	100	Jan. 1992	Productos Marine de México	Ciudad Juárez	565
C.R. Bard Inc.		Murray Hill, NJ	Medical supplies	230	March 86	Productos para el Cuidado de la Salud	Nogales	600

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from the United States						to México		
PARENT COMPANY	SUBSIDIARY	LOCATION	PRODUCT/SERVICE	JOBS LOST [1]	DATE [2]	COMPANY	LOCATION	TOTAL EMPLY [3]
CFR International Inc.	formerly CFR America	San Diego, CA	Antennae	ca. 250	Nov. 1990		Tijuana, Ensenada, México City, Coahuila State	n/a
Cardinal Tables of California		Chatsworth, CA	Furniture	130	1990		Tijuana	500
Carlisle Plastics Inc.		Englewood, CO	Plastic manufacturing	68	Aug. 1992	Plásticos Baja	Tijuana	72
Chrysler Corp.		Indianapolis, IN	Electric automotive parts	975	1988	several plants	Ciudad Juárez & elsewhere	2500
Chrysler Corp.	Coleman Products Co.	Coleman, WI	Auto harnesses	450	1990	Coleman de Obregon	Ciudad Obregon	1500
Circuit Wise Corp.		New Haven, CT	Wire harnesses for autos	46	1992	Circuitos Impresos de Chihuahua	Chihuahua	65
Cohart Products Inc.		Los Angeles, CA	Pipe fixtures	n/a	1987-1990		Tijuana	n/a
Combustion Engineering Inc.	Taylor Instrument	Rochester, NY	Electronics	200-300	1985	Sistemas y Instrumentaciones	Nuevo Laredo	400
Cooper Industries		Earlysville, VA	Circuit breakers	100	1990-91	Componentes e Interruptores	Ciudad Juárez	674
Cooper Industries	Arrow Hart	Danielson, CT	Electric components & switches	200	1986	Arrow Hart & Componentes e Interruptores	Guadalajara & Ciudad Juárez	1024
Cooper Industries	Arrow Hart	Lewiston, ME	Electric switches, outlets etc.	10	1980	"	"	"
Cooper Industries	Bussman Division	Bristol, CT	Electric fuses	330	1990	Componentes e Interruptores (see above)	See above	See above
Cooper Industries	Cooper Power Systems	Olean, NY	Fuse links (high-voltage fuses)	15	ca. 1988	Sistemas de Energia de Matamoros	Matamoros	300
Cooper Industries	Crouse-Hinds	Chicago, IL	Outdoor light equipment	90	1985	Componentes de Iluminacion	Ciudad Juárez	494
Cooper Industries	Halo Lighting	Chicago, IL	Lighting fixtures	120	1990-91	"	"	"

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Cooper Industries	Halo Lighting	Los Angeles, CA	Lighting fixtures	100	1988	•	•	•
Cooper Industries	Wagner Brake	Los Angeles, CA	Brake shoes	115	1991		Tijuana	100
Cubic Corp.	U.S. Elevator	Spring Valley, CA	Elevators & parts	ca. 100	1985-89		Méxicali (2 plants)	200
Dale Electronics		El Paso,TX	Computer parts	384	Jan. 1991	Dale Electrónica	Ciudad Juárez (3 plants)	910
Dale Electronics		Robbinsville,NC		80	Jan. 1990	•	•	•
Douglas Furniture		Los Angeles, CA	Dining room furniture & recliners	n/a	1985	Industrias Cokin	Tijuana	1000
Eaton Corp.		Milwaukee, WI	Electronic controls	58	Nov. 1992	Condura/Apacon	Matamoros	1554
Eberhard-Faber Inc		Wilkes-Barre, PA	Pencils	100+	1986	Eberhard-Faber de México	Nogales	n/a
Elka Plastic Corp.		Bayonne, NJ	Plastic tablecloths	225	1988	Plásticos Elka de México	Tlajomulco, Jalisco	n/a
Electro-Wire Products Inc.		Owosso, MI	Automotive harnesses	357	Feb. 1990	Arneses de Juárez	Ciudad Juárez (at least 9 plants)	3000
Emerson Electric Co.	Doerr Electric	Cedarburg, WI	Speed reducers for electric motors	230	1990-91	Motores U.S. de México, ElectroTec	Apodaca (2), Ciudad Juárez	1000
Emerson Electric Co.	Emerson Electric Space Co (ESCO)	St. Louis, MO	Circuit board wiring harnesses	35	1988-89	Electronica y Espacio (ESMEX)	Ciudad Juárez	70
Emerson Electric Co.	U.S. Motors	Phoenix, AZ	Motors	270	1986-87	Motores U.S. de México	Apodaca, Ciudad Juárez	402
Emerson Electric Co.	W.L. Wiegand Div.	Pittsburgh, PA	Heating elements	n/a		Wigand	Nuevo Laredo	409
Eric Morgan Inc.		Vernon, CA	Furniture	n/a	May 1989		Tijuana	300
Eureka Manufacturing Co.		Bloomington, IL	Vacuum assembly & components	Over 200	1980s-1990s	Appliance Componentes	Ciudad Juárez	700
Evenflo Products Inc.	Evenflo Juvenile Furn. Co.	Stevens Point, WI	Children's furniture	80	June 1991		Tijuana	n/a

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Farah Manufacturing Co.		El Paso, TX (3 plants) – Paisano Plant – Gateway Plant – Third Street Plant	Apparel	Over 2000	1986-1990		Ciudad Juárez (2), Chihuahua, Piedras Negras, GmzPal (3), Tehuacn	2500
Fisher Scientific Group	Imed Group	Los Angeles, CA	Tubing, valves for medical pumps	Dozens	1988		Tijuana	111
Fleck Inc.		Biloxi, MS	Appliance power cords & wire harnesses (for Ford)	200	1988-1992	Sistemas y Conneciones Integradas	Ciudad Juárez	297
Ford Motor Co.		Chesterfield Township, MI	Automotive seat covers	800	1981-1991	Favesa	Ciudad Juárez	3200
Ford Motor Co.	Ford Electronics & Refrig Corp	Connersville, IN	Copper-brass radiators, hoses	450	1984 & 1993	Cocfisa	Ciudad Juárez	900
Foster Grant Co.		Leominster, MA	Low-end sunglasses	340	1986	Foster Grant de México	Nogales	350
Gates Corp.	Gates Energy	Gainsville, FL	Rechargeable batteries	200	1980s	Sistemas de Baterías	Ciudad Juárez	1600
General Dynamics Corp.		Fort Worth, TX	Airplane wire harnesses	300	1990-91		Chihuahua	n/a
General Electric		Pittsfield, MA	Wiring for Aegis Director (defense project)	60	1992	Electro Componentes de México	Ciudad Juárez & Chihuahua	2400
General Electric		Memphis, TN	Auto lights	50	1990	Aparatos Eléctricos de Acuña	Ciudad Acuña	690
General Electric		Pittsfield, MA	Transformers	Over 100	Nov. 1986	Productos de Control	Ciudad Juárez	402
General Electric		Oakland, CA	Wire/cable	300	1983	Productos de Control	Nogales	522
General Electric		Linton, IN	Harness winding, switch & assembly	55-60				n/a

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THE RUNAWAYS

from the United States						to México		
PARENT COMPANY	SUBSIDIARY	LOCATION	PRODUCT/SERVICE	JOBS LOST [1]	DATE [2]	COMPANY	LOCATION	TOTAL EMPLY [3]
General Electric		Tell City, IN	Small electric motors & parts	160	1985	Sociedad de Motores	Reynosa	999
General Electric	GE Motor Div.	Holland, MI	Electric motors	ca. 200	1987-88		Ciudad Juárez	1402
General Electric	Trumbull Light	Warren, OH	Sealed beam lighting	494	1989			n/a
General Electric		Warren, OH	Handmounts for inside of bulbs	20 to 50	1990-91	Aparatos Eléctricos de Acuña	Ciudad Acuña & Monterrey	690
General Electric		Tiffin, OH	Motors–hermetic	200	1985	Compañía	Ciudad Juárez	1402
General Electric		Syracuse, NY	Cable wire & harnesses	150	1990-92	Electro Componentes de México	Ciudad Juárez & Chihuahua	2440
General Electric		Pittsfield, MA	Modules/circuit boards	220	ca. 1989	Elamex	Ciudad Juárez	n/a
General Electric	GE Motor Business Group	Murfreesboro, TN	Electric motors	120	1993	Compañía (see above)	See above	See above
General Electric	GE Motor Division	Decatur, IN	Electric motors	ca. 200	1987-88	•	•	•
General Instruments Corp.	Jerrold Communications	Kansas City, MO	Repair of cable TV converters	200	1989-1990	Ensambladora de Matamoros	Matamoros	2000
General Motors		Moraine, OH	Diesel engines for pickups, van	549	By 1995		Toluca	n/a
General Motors	Delco Chassis (was Delco Products)	Rochester, NY	Magnets	125+	1983	Delredo	Nuevo Laredo	670
General Motors	Delco Electronics	Oak Creek, WI	Automotive related	n/a	Early 1980s	Delnosa Deltronics Delmex,etc.	Reynosa, Matamoros, Ciudad Juárez	12000
General Motors	Delco Electronics	Kokomo, IN	Automotive related	800	1993	Delnose	Reynosa (4 plants) & Matamoros (4 plants)	8500

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THE RUNAWAYS

from the United States						to México		
PARENT COMPANY	SUBSIDIARY	LOCATION	PRODUCT/SERVICE	JOBS LOST [1]	DATE [2]	COMPANY	LOCATION	TOTAL EMPLY [3]
General Motors	Fisher Guide Div.	Elyria, OH	Auto seats & stamped-metal parts	2000	1987	Rimir (Inland Fisher Guide)	Matamoros (2 plants)	2600
General Motors	Packard Electric Div.	Warren, OH	n/a	4800	1974-1991		14 plants: Ciudad Juárez, Chihuahua, Delicias, Meoquia	14000
Genesco		Pulaski, TN	Footwear manufacturing	150		Genesco de México	Reynosa	249
Genisco Technology Corp. (CA)	Genisco Electronics Corp.	La Mirada, CA	Surge protectors	50	1990		Tijuana	50
Gerber	Gerber Childrenswear	Tempe, AZ	Children's wear	375	March 1992	Costure Mex, Fyco del Noroeste	Hermosillo	n/a
Goldstar Inc.	Goldstar America Inc.	Huntsville, AL	TV assembly	200	1988 & 1992	Electra Estrella de Oro	Méxicali	300
Good Bedrooms		Compton, CA	Furniture	n/a	Late 1980s	Muebles Fino Bueno	Tijuana	800
Grand Metropolitian	Pillsbury/Green Giant	Watsonville, CA	Agricultural products	1000	Jan. 1991	Gigante Verde	Irapuato	1200
Haggar Apparel Co.	Haggar Mens Wear/Greeville Manufacturing Co	Greenville, TX	Men's suits & slacks	188	1990	Haggarmex & 5 other plants	Leon, Torreon, Guadalajara, etc.	2000
Haggar Apparel Co.		Lawton, OK		290	1990	•	•	•
Haggar Apparel Co.		Temple, OK		200	1990	•	•	•
Haggar Apparel Co.		Bowie, TX	Men's slacks	259	1992	Joint Venture w/ Industrias DAK	Monterrey	n/a
Haggar Apparel Co.		Olney, TX	Men's slacks	99	1992	•	•	•
Hanson Plc	Progress Lighting Co.	Philadelphia, PA	Residential lighting	ca. 150	1990		Tijuana	250

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THE RUNAWAYS

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PARENT COMPANY	SUBSIDIARY	LOCATION	PRODUCT/SERVICE	JOBS LOST [1]	DATE [2]	COMPANY	LOCATION	TOTAL EMPLY [3]
Hitachi America Ltd.	Hitachi Consumer Products	Anaheim, CA	TVs	250	1992	Hitachi Consumer Products de México	Tijuana	650
Honeywell Inc	Industrial Automation & Control	Ft. Washington, PA	Electrical assembly (transmitters, valves)	75	1989			n/a
Honeywell Inc.		Gardena, CA	Heating/air conditioning thermostats	500	1988 & 1991	Mexhon	Tijuana	920
Honeywell Inc.		Plymouth & Golden Valley, MN	Building controls (including thermostats)	ca. 100	1990-92	•	•	•
Hyundai Motor Co.		Long Beach, CA	Shipboard containers	300	1989		Tijuana	1500
ITT	ITT Power	Galion, OH	Power systems for telephones	115	April 1990	ITT Power		n/a
ITT	ITT Power	Genoa, OH	Power systems for telephones	83	April 1990	•		•
Ingersoll-Rand	Schlage Lock	NC	Locks	700	June 1988	Schlage	Tecate	1000
Jason, Inc.	Osborne Brush	Henderson, KY	Steel wire brushes	33	1992	Osborne de México	Nogales	n/a
Johnson Controls		Watertown, WI	Control devices	52	June 1992	Controles Juárez & Controls Reynosa	Ciudad Juárez, Reynosa	1000
Johnson Controls Inc.		Milwaukee, WI	Heating devices	200+	1982	•	•	•
Johnson Controls Inc.		Goshen, IN	Electric controls	300	1984-1991	•	•	•
Kessler Industries		El Paso, TX	Furniture (aluminum & wood)	250	1986	Industrias Kessler & Maquilados Técnicos	Ciudad Juárez	404
Kransco Group		San Gabriel, CA	Toys	36+	1987		Tijuana	n/a

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THE RUNAWAYS

from the United States						to México		
PARENT COMPANY	SUBSIDIARY	LOCATION	PRODUCT/SERVICE	JOBS LOST [1]	DATE [2]	COMPANY	LOCATION	TOTAL EMPLY [3]
Kyocera Corp.	AVX Ceramic Corp.	Conway, SC	Ceramic capacitors	100s	1984-1990	Avio Exito & Avio Excelente	Ciudad Juárez & Chihuahua	1325
Kyocera Corp.	AVX Ceramic Corp	Olean, NY	Ceramic capacitors	200	1985-1991	•	•	•
Lamkin Leather & Rubber Co.		Chicago, IL	Rubber products	240		Lamkin de México		n/a
Lancer Orthodontics		Carlsbad, CA	Orthodontics	90	1991		Máxicali	80
Levi Strauss & Co.		TX, AR, SC	Apparel	ca. 9000	1981-1990		Aguascalientes, GómezPal (4), Guadalajara	n/a
Levi Strauss & Co.		Elizabethton, TN		140	1989	Various	Various	n/a
Leviton Mfg Co.		Warwick, RI	Wiring devices	800	1988-1991	Four companies	Tijuana (2), Ciudad Camargo, Ciudad Juárez	2960
Louisiane-Pacific Corp.		Covalo, PotterVly, & Clovardale, CA	Redwood planing & fenceboards	100	1989-1991		El Sauzal (Ensenada)	100
MagneTek Inc.	Louis Allis Co.	Milwaukee, WI	Winding jobs for large electric motors		1987-	Coil de Mex. & IG-MEX	Matamoros & Ciudad Juárez	n/a
MagneTek Inc.	Universal Manufacturing	Jonesboro, AR	Light ballasts	600	1988-89	MagneTek Matamoros	Matamoros	1500
MagneTek Inc.	Universal Manufacturing	Mendenhall, MS	Light ballasts	800	1989-1992	•	•	•
MagneTek Inc.	Universal Manufacturing	Paterson, NJ	Light ballasts	500	June 1989	•	•	•
Mallinckrodt Medical Inc.		New Athens, IL	Temperature-monitoring systems	75	1993			n/a
Mallinckrodt Medical Inc.		New Haven, MO	Temperature-monitoring systems	60	1993			•

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THE RUNAWAYS

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PARENT COMPANY	SUBSIDIARY	LOCATION	PRODUCT/SERVICE	JOBS[1] LOST	DATE[2]	COMPANY	LOCATION	TOTAL[3] EMPLY
Maytag Corp.	Hoover Co.	North Canton, OH	Laundry equipment	200	1985-1991	Hoover Mexicana	Guadalajara	552
Maytag Corp.	Hoover Co.	North Canton, OH	Floor-care machines	100	1985	Juver Industrial	Ciudad Juárez	510
Modern Filters		Joliet, IL	Fabric dust bags & filters	175	1985	Filtros Modernos de México	Ciudad Juárez	333
Modern Filters		Haverstraw, NY	Fabric dust bags & filters	78	1982	•	•	•
Moog Automotive Co.	Everco Div.	Skokie, IL	Automotive parts	25	May 1989	Everco #1 & #2	Ciudad Juárez	499
NACCO Industries Inc	Proctor-Silex	South Pines & Clinton, NC	Small appliances	852	July 1991	Proctor-Silex de México	Ciudad Juárez	1398
National Industries Inc.		Union Springs, AL	Wire harnesses for autos	371	1991		Empalme, 2 others	3200
National Industries Inc.		Montgomery & Wetumpka, AL	Wire harnesses for autos	475	1991		Empalme, 2 others	3200
Nellcor Inc.		Hayward, CA	Medical equipment	370	April 1989-Dec. 1990	Nellcor de México	Tijuana	600
Outboard Marine Corp.		Galesburg, IL	Outboard motors	up to 350	March 1983	Outboard Marine de México	Ciudad Juárez	350
Parker-Hannifen Co.	Ideal Clamp Div.	Brooklyn, NY	Automotive related	300	1980-86	Auto Industrial de Partes	Matamoros	244
Philips Industries N.V.	Advance Transformer Co.	Chicago, IL	Ballasts/transformers	220-300	1989-1990	Advance Transformer Co. de México	Ciudad Juárez	500
Philips Industries N.V.	North American Philips	Jefferson City, TN	Electronic components for TVs	800	1982			
Philips Industries N.V.	North American Philips	Fairmont, VA	90W fluorescent lights	7	1992	Advance Transformers Co de Mex (see above)	See above	See above
Philips Industries N.V.	Philips Consumer Electronics	Greeneville, TN	Small TVs (up to 20")	1500	Late 1980s, 1992	Philips Exportadora	Ciudad Juárez	1672

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THE RUNAWAYS

from the United States						to México		
PARENT COMPANY	**SUBSIDIARY**	**LOCATION**	**PRODUCT/SERVICE**	**JOBS LOST** [1]	**DATE** [2]	**COMPANY**	**LOCATION**	**TOTAL EMPLY** [3]
Philips Industries N.V.	Philips Lighting	Fairmont, WV	Halogen headlight	60	1988	Componentes Electricos de Mex	Ciudad Juárez	488
Philips Industries N.V.	Philips Lighting	Warren, PA		200	1992	•	•	•
Plastronics Inc.		Milwaukee, WI	Disposable medical devices	285	1986		Tijuana	n/a
Quaker Oats Co.	Fisher-Price	IL (3 plants)	Toys	984	1980-1990	Fisher-Price de B.C.	Matamoros, Tijuana (2), Acuña	3479
Quaker Oats Co.	Fisher-Price	East Aurora, NY	Toys	450	1990	•	•	•
R.G. Barry Corp.		Chattanooga, TN	Ladies' slippers	150	1985	R.G. Barry de México	Acuña, Nuevo Laredo, Ciudad Juárez	2070
Rheem Manufacturing		Chicago, IL	Water heaters	518	Feb. 90	Industrias Rheem	Nuevo Laredo	615
Rockwell International Corp	Allen-Bradley Manufacturing	Milwaukee, WI	Electronics components	140	1988	Tecate Electromecánica Allen-Bradley Electrónica	Tecate, Ciudad Juárez	335
Rockwell International Corp		Santa Ana, CA	Semiconductors	40	1985	Autonética	Méxicali	800
Saft America Inc.		St. Paul, MN	Portable batteries	Up to 300	1984-86	Componentes Técnicos de B.C.	Tijuana	350
Saft America Inc.		Valdosta, GA	Batteries	85	1989-1992	•	•	•
Salant Corp.	Texas Apparel, Inc.	Eagle Pass, TX	Jeans	217	July 1988	4 maquiladoras	Acuña, Piedras Negras (2), Tehuacan	n/a
Salant Corp.	Texas Apparel Inc.	Carrizo Springs, TX	Jeans	78	1990	•	•	•
Salant Corp.	Texas Apparel Inc.	Del Rio, TX	Jeans	425	1986	•	•	•
Samsung		Saddle Brook, NJ	TV assembly	n/a	1993		Undecided by company	n/a
Sandberg Furniture Manuf.		Vernon, CA	Furniture	n/a	Late 1980s		Tijuana	n/a
Sanyo Manufacturing Corp.		Forrest City, AR	13" & 20" TVs, & microwaves	1400	1986-87		Matamoros	n/a

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THE RUNAWAYS

from the United States						to México		
PARENT COMPANY	SUBSIDIARY	LOCATION	PRODUCT/SERVICE	JOBS [1] LOST	DATE [2]	COMPANY	LOCATION	TOTAL [3] EMPLY
Siemens		Earlysville, VA		175	1992		n/a	n/a
Siemens A.G.	Potter & Brumfield	Princeton, IN	Automotive relays	ca. 150	1992	Potter & Brumfield de México	Nuevo Casas Grandes, Ciudad Juárez	1500
Siemens A.G.	Siemens Energy & Automation	Bellefontaine, OH	Arc grids for circuit breakers	n/a	1987	Industria de Trabajos Electricos	Ciudad Juárez	300
Siemens A.G.	Siemens Energy & Automation	Urbana, OH	Breakers, switchgear	10	1988	•	•	•
Smith Corona Corp.		Cortland, NY	Typewriters	ca. 700	Sept. 1992-Sept. 1993		Tijuana	750
Square D Co.		Lexington, KY	Switch boxes	n/a	1990	Square D de México	Guadalajara	1900
Square D Co.		Oxford, OH	Circuit breakers	440	1989-1990	•	•	•
Square D Co.		Milwaukee, WI	Circuit breakers	n/a	1991	•	•	•
Square D Co.		Chino, CA	Panelboards & switches	n/a	1992	•	•	•
Standard Grisby Inc.		Oblong, IL	Electric switches	85		SGI	Ciudad Juárez	130
Sundstrand Corp.		Dowagiac, MI & Chicago Area	Heat transfer	Up to 155	1988-89	Sundstrand Transferencia de Calor	Nuevo Laredo	117
TRW Electronics	Carr Division	Knoxville, TN	Electronic auto parts	150	1990	TRW Electronics Ensembles	Reynosa	230
Taiyo Yuden Corp	Xentak	Vista, CA	Transformers & power supplies	130	1992		Tijuana	n/a
Takata Corp.		Dandridge, TN	Automotive seat covers, arm- & headrests	150	1991		Ciudad Acuña	n/a
Thomson Consumer Electronics		Indianapolis, IN	TV parts	2000+	1980-88	Thomson RCA Componentes	Ciudad Juárez, Torreon	5300

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PARENT COMPANY	SUBSIDIARY	LOCATION	PRODUCT/SERVICE	JOBS LOST [1]	DATE [2]	COMPANY	LOCATION	TOTAL EMPLY [3]
Thomson Consumer Electronics		Bloomington, IN	20" TV's	355	1991 & 1993	Productos Electrónicos de Laguna	*	*
Tonka Corp.		Mound, MN	Toys	29+	March 1984	Juguetrenes	Ciudad Juárez	900
Trico Products Corp.	Trico Components	Buffalo, NY	Windshield wipers	1100+	1987-1990		Matamoros	2000
Unisys Corp.		St.Paul & Eagan, MN	Computer equipment	450	Jan. 1989	Unisys de México & Sperry	Guadalajara & Nogales	1700
United Technologies Corp.	United Technologies Automotive Division	Zanesville, OH	Jig, wire, & fixture assemblies	430	1989-1991	Ten plants	Ciudad Juárez & Chihuahua	n/a
United Technologies Corp.	United Technologies Automotive Division	Alma, MI	Automotive related parts	Up to 165	1990	Essex Internacional	Chihuahua,Ciudad Juárez	5700
United Technologies Corp.	United Technologies Automotive Division	Wabash, IN	Auto wiring harnesses	550	1991		UTA has 16 plants in México	n/a
United Technologies Corp.	Wagner Industries	Reading, MI	Auto harnesses	63	Oct. 1979		Chihuahua (5); Ciudad Juárez (5)	6000
Valmont Industries Inc.		Danville, IL	Electrical devices for home construction	90	1992	CCC de México	Ciudad Juárez	1547
Vargas Furniture		Los Angeles, CA	Furniture	n/a	Late 1980s		Tijuana	300
Volkswagen		New Stanton, PA	Autos	2500	1988	Volkswagen de México	Puebla	15000
West Bend Co.		West Bend, WI	Heating controls for electric appliances	50	1988		Reynosa	n/a
Westinghouse		Bellefontaine, OH	Electric motors	400	1986-87	Manufactura de Bobinas Industriales	Ciudad Juárez	369
Westinghouse		Trafford, Manor, Glassport, Homewood, & New Ken., PA	Switchgear, circuit breakers, generators	Over 500	1980s	Operaciones de Maquilas de Juárez	Ciudad Juárez	646

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PARENT COMPANY	SUBSIDIARY	LOCATION	PRODUCT/SERVICE	JOBS LOST [1]	DATE [2]	COMPANY	LOCATION	TOTAL EMPLY [3]
Westwood Lighting		Westwood, NJ	Desk & floor lamps	570	1987		Ciudad Juárez	600
William Prym Inc.		Dayville, CT	Sewing notions	106	1990	William Prym de México	Tultitlan, Estado de México	n/a
Zenith Electronics		Springfield, MO	TVs	3800+	1979-1992	Zenith de México	Raynosa (2), Ciudad Juárez	17000
Zenith Electronics		Paris, IL	TV parts	600	April 1983	•	•	•
Zenith Electronics		Evansville, IN (2 plants)	TVs	1400	1986	•	•	•
Zenith Electronics		Chicago, IL	Cable TV decoders	110+	Oct. 1984		Chihuahue	1800

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TESTIMONY OF
KEVIN L. KEARNS, PRESIDENT
UNITED STATES BUSINESS AND INDUSTRIAL COUNCIL

BEFORE THE SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS
APRIL 28, 1992

THE MANIPULATION OF TRADE STATISTICS WITH RESPECT TO MEXICO AND THE PENDING NORTH AMERICAN FREE TRADE AGREEMENT

Mr. Chairman, thank you for the opportunity to appear today to comment on how faulty trade statistics tend to distort policymaking on international trade. I think this problem is particularly relevant with respect to Mexico and the pending North American Free Trade Agreement (NAFTA). Specifically, many times policymakers are obliged to deal with trade statistics that present a misleading picture on how trade impacts the economy, and how trade in specific goods and services and trade with certain countries effects our economic well-being.

I will focus specifically on three concerns about the quality of our trade statistics. First, our government officials insist time and again on telling us that exports by definition create jobs, and that therefore exports must be promoted. One question the trade data we have available to us now cannot answer is the extent to which we are moving our manufacturing base southward (a phenomenon NAFTA will accelerate). We count such desegregating activity and cross-border commercial activity within a company as exports. But does this activity create jobs in the process. But if we are merely exporting assembly activity to Mexico for products destined for the U.S. market, how can we really be creating jobs for Americans?

Second, it appears through casual observation that we are exporting large quantities of capital goods to Mexico. At some point, it is rational to assume that these machines will be bolted to a factory floor somewhere and begin producing something. But the average Mexican worker earns $25 for a 48-hour work week. There seems to be little likelihood that Mexicans earning such wages will be buying products produced by these factories. There is a high likelihood that these products will end up in the American market. Thus you can see that capital goods exports may be a good example of exports that, in the long run, may destroy rather than create jobs.

Third, I will take a closer look at the export panacea claims being made by many of NAFTA's proponents, and de-construct their contention that exports "support" a substantial fraction of our economic growth and jobs base. Ideological free traders are fond of claiming that each billion dollars in exports supports 20,000 jobs. Because most value added is in manufacturing, most of the 20,000 jobs supported by the billion dollars in exports are manufacturing jobs. Yet the job-destroying impact of imports goes unrecognized and undiscussed. And, the contention of some that some exports are "supporting" a substantial fraction of overall American job creation and economic growth is simply false.

PROBLEM #1 -- WHAT IS AN "EXPORT?"

In recent years, the government has made extravagant claims regarding the degree to which our exports, not net exports,

support economic growth and job creation. First, we need to take a closer look at how we define our "exports," particularly with respect to Mexico, with its Maquiladora zones hard by our southern border.

We need to analyze more realistically how we count items that we "export" to factories in Mexico and other countries for assembly and processing, only to have these items come back to the United States as finished products. In the long run, if we can get a firm idea of how much of our trade with Mexico is actually parts and subassemblies being sent to Mexico only to be "finished" and sent back to the U.S., we will have a much better picture of how many jobs the NAFTA will or will not create.

While U.S. Government statistics-gathering agencies do not attempt to identify those exports being sent overseas for such work, we can infer what the value of re-entering goods may be by looking at tariff data. Special customs rules apply to such items when they re-enter the U.S. In 1991, we imported from Mexico some $14.1 billion in products assembled of U.S. components, under the special tariff rules of the U.S. Harmonized Tariff Schedule Item 9802, according to the International Trade Commission.

Our total exports to Mexico in 1991 were reported to have been $33.3 billion. This included some $5.3 billion identified as Electrical Machinery and Apparatus, and $3.9 billion in Auto/Motor Vehicle Parts. According to these figures, compiled by the Commerce Department, Electrical Machinery and Auto/Motor Vehicle parts were our two largest exports to Mexico. Much of that was destined to be returned, fully assembled or re-processed, to the United States.

An inquisitive person might wonder, what becomes of these products? Once shipped to Mexico, what kinds of products are manufactured there and sent back to the U.S.? Perhaps some insight into these questions can be gained by noting that three of the five largest categories of imports from Mexico to the U.S. in 1991 are Electrical Machinery and Apparatus ($5.5 billion), Autos and Motor Vehicles ($2.6 billion) and Auto/Motor Vehicle parts ($2.0 billion). According to the International Trade Commission, goods that enter the United States duty-free under increased in value from $2.1 billion in 1979 to $12.5 billion by 1989. Most of these were either motor vehicles and parts or electrical and electronic equipment.

There may or may not be a direct correlation between these figures and those for U.S. exports to Mexico I cited above. That is, the parts exported from the U.S. may not go directly to manufacture imports intended for the U.S. But according to SECOFI, the Mexican trade ministry, 63% of Mexico's imports come from the U.S. and 69% of what Mexico exports comes to the United

States.

Apparel imports and exports make a particularly interesting example. U.S. exports of apparel to Mexico were reported at $481 million in 1991. But other Census Bureau figures recently published by the International Ladies Garment Workers' Union reveal that $419.2 million in apparel products were imported duty-free from Mexico after being shipped there for assembly.

PROBLEM #2 -- ARE WE EXPORTING OUR MANUFACTURING?

We also should be concerned about the extent to which we are exporting capital goods to Mexico, and what this will ultimately mean for our long-term balance of payments with Mexico. A large share of our exports to Mexico are capital goods, and this contributes significantly to our current accounts surplus with Mexico. Figures from the U.S. Department of Commerce showed some of the following capital exports to Mexico:

Product Category	Estimated U.S. Exports to Mexico, 1992
Chemical Production Machinery	$559 million
Machine Tools & Metalworking Equipment	$339 million
Textile Machinery & Equipment	$115 million
Food Processing & Packaging Machinery	$131 million
Plastics Production Machinery	$79 million

According to the Commerce Department's *1992 Industrial Outlook*, in 1991 our industrial machinery exports to Canada and Mexico were nearly twice that to the European Community, and nearly four times that to Japan. Given the recent stagnation of the Canadian economy, it seems logical to assume that much of this machinery was bound for Mexico.

If this is the case, our exports of capital goods (essentially factories) could make up nearly a fifth of our total exports to Mexico.

The anecdotal evidence of "factory export" is certainly strong. For example, it has been reported that AT & T has been shipping injection molding equipment from its plant in Shreveport, Louisiana to Mexico. This equipment is used to manufacture state-of-the art business and residential telephone sets which will almost certainly end up making products being sent back to the U.S.

Looking at this from a broader perspective, The Resource Center of Albuquerque, New Mexico has produced a preliminary report on its major project *Runaway America*. The Center found nearly 200 separate instances of plants moving from America to Mexico, involving the loss of thousands of jobs. In counting these "runaways," the Resource Center used a fairly narrow definition. A "runaway" could qualify only if the movement was characterized by a long-term net reduction in employment at a U.S. facility accompanied by an expansion of employment at a new or existing Mexican facility producing an identical or updated good or service and controlled by the same parent company.

One can foresee that such exports, whether one machine at a time or whole factories, will eventually saturate the Mexican market, and that goods manufactured in Mexico will eventually begin to flow back across the border into the U.S. Our government has made no effort to forecast this phenomenon or its impact on our economy, and I would strongly recommend an effort to do so.

PROBLEM #3 -- THE PRO-EXPORT BIAS AND THE GOOD JOBS-BAD JOBS RUSE

Characterizing the economic impact of exports has led our policymakers to make particularly misleading statements about how international trade effects our economy. Various government officials in recent months have attempted to portray exports as a central component of our economic growth, such as it is. Former U.S. Trade Representative Carla Hills often said that exports are responsible for 70% of America's GDP growth in recent years and the creation of 2 million new jobs. In addition, Hills and others asserted that export-related jobs are better than domestic-related jobs because they pay 17% more. Clinton administration spokespersons are now using the same statistics. However, the assumptions and methodology behind these statistics are questionable and these claims do not stand up under closer scrutiny.

These three figures, 70% of GDP, 2 million jobs, and 17% greater pay, were also used endlessly during the House floor debate last year on H.R. 5100, the Trade Expansion Act, by free trade-oriented Members opposed to the bill. Their aim: creating the impression that any legislative attempt to counter foreign protectionism and industrial targeting would provoke disastrous retaliation against U.S. exports. Deprived of its alleged export-led growth, the U.S. economy would then fall flat on its face. Again, the statistical evidence cited to support the claim is specious, and many well-intentioned House members were misled into repeating the Administration's statistics.

The assertion that "exports have fueled 70% of our economic growth in recent years" is impressive and, if true, worth pondering before say passing new trade legislation or opposing the North American Free Trade Agreement. According to economists

at U.S.T.R. and the Commerce Department, it is derived by dividing the increase in merchandise exports for a particular period by the increase in GDP for the same period. That is,

$$\frac{\hat{}\text{EXPORTS}}{\hat{}\text{GDP}} = x\% \text{ of GDP growth.}$$

The first problem lies in the denominator: GDP growth has been anemic in the Bush years. The average real GDP growth rate of approximately one percent per year recorded since 1980 is extremely slow. Such sluggish GDP growth makes any increase in exports, even a small one, look impressive measured relative to this base. Tacit in the bragging about the percentage is the admission that GDP growth has been abysmal. One's pocket change expressed as a percentage of current GDP growth would yield a large number.

The second problem lies in the export figure, the numerator. Basically, any component of national income -- personal consumption, investment, net exports, government purchases, or any component thereof -- has a statistical relationship to the ˆGDP denominator and can serve as the numerator. Consequently, singling out exports as "accounting for" 70% of our economic growth is unjustified. It creates the impression that other factors have "accounted for" only 30% percent of the GDP growth during the Bush presidency -- an impression that is simply false.

For the years 1989, 1990 and 1991, merchandise exports grew some \$90.9 billion and GDP grew \$130.2 billion (in constant 1987 dollars). Expressed as a fraction, the result is:

$$\frac{\hat{}\text{exports}}{\hat{}\text{GDP}} = \frac{\$90.2\text{B}}{\$130.2\text{B}} = 70\% \text{ of GDP growth.}$$

True enough -- with this methodology. However, during this same period, personal consumption grew by \$94.3 billion and government purchases grew by \$49.9 billion. Each of these figures has the same intrinsic relationship to GDP growth as does exports. When expressed as fractions the respective results are:

$$\frac{\hat{}\text{per. consump.}}{\hat{}\text{GDP}} = \frac{\$94.3\text{B}}{\$130.2\text{B}} = 72\% \text{ of GDP growth;}$$

$$\frac{\hat{}\text{govt. procure.}}{\hat{}\text{GDP}} = \frac{\$49.9\text{B}}{\$130.2\text{B}} = 38\% \text{ of GDP growth.}$$

During the period in question, consumption, government expenditures, and exports all contributed to growing aggregate demand, and all can be expressed as a percentage of GDP growth. Thus the Administration is being disingenuous at very best by focusing on only one of the several contributors to GDP growth.

In addition, any figure for the change in export performance as a percentage of GDP can be made to vary simply by switching the base year. For example, using the methodology above but plugging in the Reagan and Bush years together (i.e. 1981-1991) shows that merchandise exports represent a mere 14% of GDP growth. In contrast, for the same period government purchases represent 22% and personal consumption a whopping 76% of GDP growth.

In fact, it is deceptive to argue that exports, consumption, or government expenditures are the source of GDP growth. All of these components of national income can create aggregate demand stimulus. So, if the economy is below full-employment and full capacity utilization, an increase in one of these components can raise GDP. However, if the economy is at full-employment, expansionary aggregate demand policies will only raise prices. Real growth, that is growth in potential output, is not fueled by exports, but rather by savings, investment, productivity gains, and technological advances. At this point in the Bush administration, the savings rate remains anemic and far below G-7 rivals; investment has dropped significantly; productivity gains in manufacturing are respectable but again below most of the G-7; and R&D spending is also down and below Japan and Germany on a per capita basis.

The third problem with the Administration's representations is the claim that exports have created 2 million jobs. The methodology that supports this claim is complex and beyond the scope of this testimony. However, on its face the claim is misleading. One would assume from this statement that the 2 million additional jobs were produced during the same time period during which exports "accounted for" 70% of growth. A 1992 Commerce Department report (U.S. Jobs Supported By Merchandise Exports) upon which the job figures are based indicates that exports supported 2.07 million additional jobs -- but over a seven year time period, 1984-1990, not the 1989-1991 period of "70% export-led growth."

The Administration can't have it both ways, citing the two figures together but switching around the base year to create the best of both worlds. During the seven year/2 million jobs period, merchandise exports "accounted for" 16%, not 70%, of GDP growth. Again for the sake of contrast, government purchases "accounted for" 19% and personal consumption 66% of GDP growth during the same seven year period.

Moreover, the Administration's approach fails to balance the export side of the story with the import story. Talking only about exports gives a misleading picture of the effect on the economy of America's total trade performance -- especially since foreign competitors skew trade through sanctuary markets at home and government-led industrial policies that target American rivals abroad. Although there is no question that exports

provide jobs, imports can siphon off demand for domestically produced goods, especially when part of a coordinated scheme to grab market share, and thus force a drop in GDP growth.

It is fine to say "exports rose by $X billion last year." But, if imports exceed exports for that same year, international trade may well be placing a drag on GDP. Given the fact that imports must be treated along with exports in assessing the total effects of trade on GDP growth, it would be more accurate to discuss net exports (exports minus imports). There, in spite of the import slowdown caused by the recession, net exports stood at a negative $66 billion in 1991 and are projected to grow substantially above that number for 1992.

According to the figures cited by those who support free trade and the NAFTA, each billion dollars of exports supports about 20,000 jobs. And just as exports can create jobs, imports can destroy them. Looked at this way, international merchandise trade cost the United States some 1.3 million jobs last year. And various studies of auto and textile workers displaced by imports have shown that very few wind up with jobs that pay more than or equal to their old positions, and many become discouraged and drop out of the labor force altogether.

Apparently the Bush Administration's definition of a good job is one that was created by an export and a bad job, or one that the country didn't need anymore, is one that was destroyed by an import. Displaced American workers who formerly held decent jobs in electronics, machine tools, and autos would hardly agree. So while trumpeting export-related job gains, the Administration neglects to mention import-related losses or the broader employment situation.

Former President George Bush promised 30 million new jobs and fell about 29 million short. There has been net job creation of about 1 million, but 4 million additional workers have joined the labor force. Although employment in service industries and government has grown, there have been losses of 1.3 million jobs in the all-important manufacturing sector. While job gains from export growth are welcome, the overall job creation record of the American economy is dismal -- and due in many respects to its inadequate trade policy.

A fourth figure worth discussing is one cited by both the Bush and Clinton Administrations in support of its claim that jobs supported by exports are somehow different and better than "domestic" jobs. The Administration stresses that "wages in the export sector are 17% higher than the average for the economy as a whole." There is a good reason for the differential: 46% of the jobs supported by exports are in the manufacturing sector. This percentage is much higher than the 17 percent of total employment that manufacturing jobs represent in the United

States.

An additional fact is necessary to understand why manufacturing jobs are different: Because of the high level of skills involved and the high output which results when workers and machines are joined in the productive process, manufacturing jobs pay significantly more than most others. Weekly compensation in the manufacturing sector averages $455, versus $355 for the economy as a whole, $371 in financial/insurance/real estate, $331 in services, and $251 in retail. So it is not surprising to learn that wages in the manufacturing-led export sector are significantly higher than the national average.

What is surprising is the recognition by the free traders that there are better and worse jobs in our economy, and that we should do something about preserving the better paying, high value-added jobs. That's exactly why foreign companies and governments have been targeting certain American industries and exactly why appropriate countermeasures are necessary. That's also exactly why the kinds of industrial and technology policies that the free traders still oppose are so urgently needed to preserve a high value-added structure, or composition, in our economy.

The grand irony here is that the free traders, especially in citing the 17% differential figure in support of the NAFTA, have inadvertently wound up making the case for a composition policy. They have unwittingly highlighted the importance of manufacturing, and more specifically, of keeping high-skill, high value-added, high-paying manufacturing jobs in the United States. Yet those with free trade prejudice against any government intervention in the marketplace (even to counter foreign manipulation of markets), have remained steadfastly indifferent to the composition of our economy -- what we make, what we trade, what kind of jobs we have.

These trade beliefs dictate that the only legitimate way government can assist economic growth is by fostering exports. That's apparently the only way that free traders can think of to create jobs. But merchandise exports represented only about 7.4 percent of U.S. economic activity last year, $422 billion out of a $5,700 billion economy. And in choosing to stress only export-related jobs, the Administration neglects the fact that exports account for only a small percentage of private sector jobs -- some 7 million out of a total of the 97 million private sector jobs in this country. The fact that the Bush Administration felt comfortable simply ignoring the vast majority of American jobs as it tried to grapple with a foundering economy is indicative of its narrowly-focused, laissez-faire mindset. And not coincidentally, this mindset helped lead to the Bush Administration's downfall.

Those who are staunchly committed to free trade ideology, cannot entertain the thought of any government intervention in the domestic marketplace to create or defend jobs there. Taking these ideological roots literally, these free traders believe that the only way it can or should affect markets is to create more of them -- by negotiating new free trade agreements with amenable foreign governments. What actually goes on in the vast U.S. market is apparently not the government's concern.

If free-traders are really interested in high-paying jobs, why extol only merchandise exports and limit economic policy to that class of goods alone? Why not promote the much larger group of manufactured goods that we make and consume here at home?

The Bush Administration's manipulation of statistics to support its free trade prejudices and political ends only served to obscure the magnitude of the task it faced (and failed) in restoring sound economic growth. The United States is still falling behind in the international trade battle. We are still running a large and growing trade deficit. We are still hemorrhaging jobs in key manufacturing sectors. The country doesn't need ideological polemics based on phony statistics; we need real solutions to very serious problems. It's high time that we stopped distorting the export figures, realized the full implications of arguments for more exports, and adopted a comprehensive economic strategy for the country.

STATEMENT OF
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INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)
before the
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE
ON
THE NORTH AMERICAN FREE TRADE AGREEMENT AND AMERICAN JOBS

April 28, 1993

Mr. Chairman, my name is Steve Beckman. I am an international economist for the UAW. I appreciate having the opportunity to appear on behalf of the union's 1.3 million active and retired members. The UAW has been involved in the debate surrounding the impact of NAFTA on American jobs. We have also commented extensively on many of the studies undertaken, the relevance of the data they use and the analytical value of that data.

I would like to comment on some of the claims concerning the contribution of U.S. exports to Mexico to American jobs. The UAW believes that many of these claims are misleading.

The first issue I would like to raise is the time period for comparisons chosen by those who argue that increased U.S. trade with Mexico in recent years has created thousands of new jobs. In 1981, when economic integration between the U.S. and Mexico was not a high priority in either country, when Mexican wages were on average far higher than today, the U.S. ran a modest overall trade surplus with Mexico and a substantial surplus, almost $10 billion, in manufactured goods trade. The devastating debt crisis that hit Mexico in 1982 undermined this U.S. surplus and cost thousands of American workers their jobs.

In the public debate and discussion of NAFTA, however, the Bush Administration chose to compare U.S. exports to Mexico in 1986 or 1987 with exports in 1991. The comparisons start with a year in which the Mexican economy was still mired in depression and measure the improvement in trade between the two countries from that point to the current situation of modest recovery in Mexico's economy from those depths. A longer perspective, going back to 1981, indicates that U.S. exports to Mexico have not experienced a revolutionary expansion so much as a path toward restoration. The direction of the U.S. export trend is an issue that needs further analysis; it is by no means assured that the present course will continue.

The claims by the U.S. government and private employers of increased employment for American workers due to trade with Mexico almost always look only at the change in U.S. exports while ignoring U.S. imports. U.S. exports to Mexico have certainly grown rapidly in recent years, but so have U.S. imports from Mexico. The impact of trade between the two countries on U.S. employment is the result of trade in both directions, not only U.S. exports. Viewed in this way, and using the aggregate trade figures that show a U.S. trade surplus with Mexico, American jobs related to trade with Mexico have, more or less, returned to their pre-debt crisis level; they have not "increased" from that standard of measurement.

More importantly, in assessing whether increased U.S. exports to Mexico have generated additional American jobs, it is necessary to examine the nature of the trade that is taking place. There are two aspects of this trade that are excluded from the common statements of NAFTA proponents. Many exports to Mexico are components that come right back into the U.S. in finished products. Much of this trade moves through maquiladora plants on the Mexican side of the U.S.-Mexico border. The limitation of describing these shipments as international trade is demonstrated by the fact that the Mexican government excludes maquiladora trade from its official trade statistics. Most of this commerce is nothing more than intra-company shipments that

move across a national border for minor processing and then return. As noted above, it is the relationship between the value of U.S. exports and U.S. imports, not of U.S. exports alone, that determines whether this trade creates jobs or not.

The jobs of American workers who produce goods that are only temporarily exported from the U.S. and never enter the customs territory of Mexico cannot be counted as dependent on exports to Mexico; it is the U.S. market alone that generates the income to support their jobs and Mexico is nothing more than a way-station in the shipping and final assembly process.

The more interesting aspect of this process, though, is the extent to which the use of a maquiladora plant or other Mexican assembly facility produces a substantial increase in recorded U.S. exports to Mexico but results in a **decline** in U.S. employment. As noted before, judging U.S. employment impact only by the size of U.S. exports to Mexico produces a very misleading result. A few examples from the auto industry should shed some useful light on what the use of Mexican assembly facilities means for American employment.

Many of the engines for Ford Escorts and Mercury Tracers assembled in Hermosillo, Mexico are shipped from the Ford Motor Company's Dearborn Engine Plant. Ford assembles Escorts in Wayne, Michigan as well as in Hermosillo and formerly used a second U.S. plant, in Edison, New Jersey, rather than a Mexican plant to assemble Escorts. None of the vehicles assembled in Hermosillo is sold in Mexico; all of them are sent back to the U.S. and Canada for sale. If all of Ford's assembly of these vehicles remained in the U.S., there would be no question of any jobs related to their production being "created" by exports to Mexico. However, we have estimated that as many as 80,000 of these engines were shipped to Mexico last year for assembly into vehicles that were to be shipped back across the border. U.S. exports of $50 million or so to Mexico were generated by these shipments. Using the standard Commerce Department figure of 20,000 jobs per $1 billion of exports, 1,000 American jobs were

"created" by these exports to Mexico. This erroneous job claim is not the end of the misrepresentation of the relationship between exports to Mexico and American jobs. **If Ford retained the second U.S. plant assembling Escorts and Tracers, there would have been no exports to Mexico and about 2,000 more American assembly workers.** So much for the job gains from increasing U.S. exports to Mexico.

There are many more examples of U.S. exports to Mexico that diminish rather than increase U.S. employment. Other Ford parts are shipped to Mexico for assembly into Escorts and Tracers, including steering components from Indianapolis. General Motors and Chrysler also assemble vehicles in Mexico that are shipped back to the U.S. for sale and they include components exported from this country. These exports are also claimed by NAFTA proponents as "creating American jobs". However, when Chrysler LeBarons return to the U.S. from Chrysler's assembly plant in Toluca, Mexico, so do the exported engine parts from Trenton, Michigan and transmission parts from Kokomo, Indiana. When General Motors ships Buick Century models from Ramos Arizpe, Mexico to the U.S., it also sends back U.S.-made engines from Flint, Michigan, fuel injectors from Coopersville, New York, brakes from Saginaw, Michigan and other components as well.

Many of the claims of job creation are based on state-by-state calculations of changes in exports to Mexico produced by the U.S. Department of Commerce. It is these calculations, when combined with the 20,000 jobs per $1 billion in exports (another Commerce Department figure), that have been used most often to produce the estimates of jobs created. There are some important limitations to the state data. The Commerce Department recognizes these in a "Statistical Note" to the publication of the data. At the end of that note in the July 1992 publication of "U.S. Exports to Mexico, A State-by-State Overview, 1987-1991" it states: "One should not rely solely on the MISER-Census statistics [the source for the export data] when making statements about the contribution of exports to a given state's employment and overall economic health."

Despite this caveat, the Bush Administration and many state governments have used the export data to justify support for NAFTA and identify the number of jobs created by exports to Mexico. The State of Michigan, among others, has made such statements.

While it is true that exports to Mexico can, indeed, create jobs, the overall impact of U.S.-Mexico economic integration for a state like Michigan cannot be understood by looking only at its exports. As a major auto-producing state, Michigan employment is very much dependent on domestic production in that industry and the size of the domestic market. According to data contained in a General Accounting Office (GAO) report of September 1992 ("North American Free Trade Agreement, U.S.-Mexican Trade and Investment Data"), U.S. exports of "Road vehicles and other transport equipment" totalled $1.4 billion in 1986 and $4.4 billion in 1991. Imports from Mexico in the same category grew from $1.1 billion to $4.3 billion. The decrease in U.S. net exports during this period was $0.2 billion.

The small drop in net exports from 1986 to 1991 should be put into a longer perspective. From 1981 to 1986, U.S. exports to Mexico in this industry fell from $2.8 billion to $1.4 billion, while U.S. imports increased from $0.3 billion to $1.1 billion. These two figures combine for a net reduction in U.S. exports of $2.2 billion. In 1981, the U.S. had a surplus of $2.5 billion in auto industry trade with Mexico and only a $0.1 billion surplus in 1991. The Mexican debt crisis and its aftermath have clearly **reduced** employment in the U.S. by increasing U.S. imports from Mexico by far more than exports have grown. This is a critical part of the assessment of U.S.-Mexico trade that is missing from the state-by-state analyses and the now departed Bush Administration rhetoric.

In 1982, there were only 12,000 Maquiladora workers in the transportation sector; there are now more than 110,000 according to the Mexican government, a nearly ten-fold increase in a decade. During this period, many thousands of UAW members and

other workers in the U.S. auto industry have lost their jobs, taken early retirement or otherwise been displaced from their work.

The U.S. government has collected and published very little data on the relationship of the Maquiladora plants, most of which are owned by U.S.-based corporations, and worker displacement in the U.S. Even the trade data on Maquiladoras is lacking. Much of U.S. trade with Maquiladoras enters the U.S. under tariff item 9802, and information on those imports is published annually. However, some U.S. imports from maquiladora plants enters the U.S. under the Generalized System of Preferences (GSP) and some products may enter under their normal tariff code, which has a zero tariff. This means that the U.S. government is incapable of describing even the trade impact of the operation of the U.S.-owned plants along the U.S.-Mexico border, much less the employment impact of these investments.

The impact on the U.S. economy of the shift in production and assembly to Mexico is much more dramatic than most economists would lead you to believe. In the Maquiladora plants, for instance, the Mexican value-added in 1991 was somewhere in the range of $5 billion according to the GAO. The largest share of this value consists of worker compensation. Because worker productivity in many Maquiladora plants is equivalent to U.S. levels, but their pay can be as little as one-twentieth of U.S. worker compensation, the displacement of American worker compensation due to maquiladora operations is far greater than the $5 billion. If the American worker's compensation is ten times that of the maquiladora worker, then $50 billion in American worker income is lost. This is not a small figure or an insignificant factor in the economic lives of thousands of workers and their communities. This loss of income means unemployment, poverty, family stress, lost housing and missed opportunities for the children of affected workers.

For Michigan, which assembles millions of vehicles for the entire U.S. (and Canadian) market, exports of auto parts to Mexico must be balanced against imports of

assembled vehicles from Mexico. From 1986 to 1992, imports from Mexico jumped from less than 60,000 to nearly 300,000. The imports of those vehicles and their sale in other states has a profound impact on employment in Michigan, as do imports of auto parts from Mexico. The usefulness of the state-by-state export data must be considered in light of its statistical and its economic limitations.

In discussing the relationship between exports and jobs, the U.S. government has made a blanket assumption that, because a product is recorded as having been exported (i.e., sold in a foreign country), the job making that product is attributable to the foreign sale. This relationship may be true when the export market is the final destination of the export. It is the earnings of the foreign purchaser that allow the worker who made the product to be paid. With U.S. exports to Mexico, as reported by the U.S. government, there is no such relationship. In many cases, it is still U.S. purchasing power that is responsible for the worker making the product being paid. The fact that the product makes a temporary trip to Mexico is incidental to the ultimate use of the product. That is why Mexico excludes maquiladora trade from its official trade statistics.

But Mexico includes much similar trade in its official statistics that is not conducted in maquiladora plants. The auto trade I have described above is no different from the temporary shipment of products into maquiladoras for processing and re-shipment back to the U.S., but it does not involve maquiladora plants in Mexico.

Without the inclusion in the trade figures of this "temporary trade", there would be a much smaller increase in U.S.-Mexico trade compared with the pre-debt crisis level and even compared with the mid-1980's than the figures that trade experts repeatedly cite. Those smaller trade numbers would not generate as much excitement about NAFTA in the media as the numbers that are now thrown around.

The UAW commends you, Mr. Chairman, for delving into the quality of the data that frames the NAFTA debate. We believe that many of the trade figures used, and the

employment relationship attributed to them, are repeatedly misrepresented. A full and open discussion of the U.S.-Mexico trade relationship would be beneficial for the people of both countries and we hope this hearing will contribute to fostering that discussion.

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OVERSIGHT OF FEDERAL TRADE DATA

April 28, 1993

CHARLES A. WAITE
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Bureau of the Census
U.S. Department of Commerce

Subcommittee on Oversight of Government Management
Senate Committee on Governmental Affairs

Introduction

Mr. Chairman, it is a pleasure to be here today to discuss the state of our trade data, especially as they pertain to the proposed NAFTA treaty. While service trade is a rapidly growing sector of our export activity with Mexico, I shall limit my comments today to U.S. merchandise trade. Trade data on selected business, professional, technical and financial services are compiled separately by the Bureau of Economic Analysis (BEA).

The U.S. merchandise trade statistics, produced by the Bureau of the Census, measure the flow of goods into and out of the United States. In recent years merchandise trade statistics have become a closely watched indicator of U.S. economic activity. In the decade between 1982 and 1992 total merchandise trade more than doubled to just under $1 trillion annually and now represents roughly 16.5 percent of the country's Gross Domestic Product (GDP). Exports account for 7.5 percent of GDP, imports for 9 percent.

Mexico currently is our third largest trading partner. In 1992, U.S. exports to Mexico totaled $40.6 billion, (9 percent of total exports); we imported $35.2 billion in merchandise from Mexico, (6.6 percent of total imports). Thus, our exports to Mexico exceeded imports from Mexico by $5.4 billion.

We feel that the existing data on merchandise trade with our international partners, including Mexico, are adequate to monitor trade flows. While our data do not specifically address maquiladora trade, the same level of detail data is available for Mexico that is currently being used successfully to monitor the U.S./Canada Free Trade Agreement. We know of no new data requirements resulting from the NAFTA.

The Census Bureau has undertaken a variety of activities to evaluate and improve the quality of its trade statistics. In fact, the trade statistics program may be the most improved program supporting any economic indicator in the past few years. As I will discuss in more detail later, studies indicate the quality of the statistics are generally good; they are equal to, if not better than, those of our major trading partners.

Now I will address the specific questions posed by the Subcommittee.

Strengths and Weaknesses of the U.S. Trade Data

The following testimony is based on the premise that the current dependance on the Customs Services' administrative record process to obtain merchandise trade data substantially dictates the level and type of data available; in many cases providing more

information than can be obtained through other sources. However, for Canada and Mexico, the future source for obtaining merchandise trade data is subject to change. Administrative records may cease to exist since both the U.S./Canada Free Trade Agreement and NAFTA provide for phasing out tariffs over a period of years. Planning is currently underway at the Census Bureau on alternative data sources. The experiences of the European Economic Community in Europe '92, where all intra-community Customs controls are eliminated, are of great interest and will provide a model for consideration.

The compelling strength of our trade data is that, unlike most other U.S. economic statistics, which are estimates based on sample surveys, the merchandise trade statistics represent a full tabulation of official information required by the U.S. Customs Service for import tariff collection and export administration. Not only are the administrative records a complete and accurate source, the level of detail available from those records generally exceeds any data that could be collected from surveys. The U.S. merchandise statistics include all transactions, except those specifically excluded by law or regulation, such as shipments valued less than $1,250 and $2,500 for imports and exports, respectively. To put this task in perspective, we compile data for over 2 million import and export transactions every month.

The resulting U.S. trade statistics are among the most detailed economic statistics available, providing 14,000 import and 8,000 export commodity categories based on the internationally comparable Harmonized Commodity Description and Coding Classification System (HS). The data provide value and quantity information on trade flows with over 200 trading partners.

The trade statistics satisfy a broad spectrum of users from those who establish national economic policy, such as the President's Council of Economic Advisors, to other government agencies, academia, trade associations, the transportation industry and individual firms attempting to find markets for their specific products. The use and close scrutiny of the data is evident in the newspaper and magazine articles, which appear almost daily, and is reflected in the hundreds of requests for data received at the Census Bureau each month.

Over 90 percent of import and 50 percent of export transactions are collected directly from the respondents by automated processes that ensure high quality while minimizing reporting burden. Recent comparison of our trade data with those of our major trading partners, such as Japan and the European Community, confirm the quality of the U.S. trade data.

While our import statistics are judged to be complete, recent Census Bureau studies show minor underreporting of U.S. exports. Worldwide, imports, because of the enforcement of tariffs and quotas, are more complete and accurate than export data. The results of trade data comparisons with major trading partners, coupled with the results from joint Census Bureau and Customs Service audits of export operations at major ports of exit, place this undercount at 3 to 4 percent (excluding Canada which is virtually zero), or $11 billion to $14 billion annually, based on 1992 totals.

In addition, the Census Bureau estimates that approximately one third of the export documents require some additional work to resolve faulty and missing information. Such problems mainly affect data items such as commodity classification and quantities rather than the total value of the shipment.

One of the reasons for this is that the exporting community is large and constantly changing (over 100,000 firms) making it very difficult to educate all exporters. In fact, although over 75 percent of export value is accounted for by 1,000 exporters, over 50,000 exporters have only one shipment a month, or less.

We have taken a number of steps to improve quality. The Census Bureau and the U.S. Customs Service funded a study by the National Research Council of the National Academy of Sciences entitled "Behind the Numbers, U.S. Trade in the World Economy." This 1992 study, authored by leading members of academia and the private sector, recommended numerous improvements to the trade statistics in both the merchandise and service sectors. We have closely evaluated the recommendations and have adopted many. For example, the Census Bureau, following the recommendations, has greatly expanded both the automated collection and dissemination of the trade data. We have virtually eliminated "carry-over," where transactions were recorded in the wrong month and we have converted to the international Harmonized System of product classification. We have extended our trade data reconciliation studies to other major trading partners such as Australia and Korea. Other recommendations, such as the proposal to develop an alternative seasonal adjustment methodology, serve as future goals.

The Census Bureau has taken a number of other steps to improve its trade statistics. First, we have an ongoing program to educate exporters who submit incomplete or faulty documentation. Under this program we have returned over 75,000 faulty export documents with a letter of instruction on how to correctly prepare the document. This effort has resulted in a 20-percent reduction in the rates of selected reporting errors of targeted exporters. We are now concentrating on making personal calls to those exporters responsible for large numbers of reporting errors. In addition, the Census Bureau has conducted 60 seminars

on export document preparation for over 4,000 exporters in 25 cities. While in those cities we also held training sessions for local Customs Service officials.

As a longer term means of improving quality, the Census Bureau promotes a program of automated reporting by exporters. Currently data for over 20 percent of exports is collected directly from automated exporters through this program.

In addition, data for another 30 percent of export transactions, representing all exports to Canada, are received in automated form from the Canadian government under the provisions of a U.S./Canada data exchange agreement. Under this agreement, each country uses the counterpart import data as a proxy for its national export statistics. By utilizing counterpart import statistics, we were not only able to produce better statistics but reduced respondent burden by eliminating 2.5 million export documents annually. Implementing this program followed a period of detailed study of the differences between the two statistical systems and changes by both countries to eliminate those differences.

Finally, we are working with the U.S. Customs Service on the Automated Export System, which is modeled on the Customs Service's highly successful automated import system and which would allow the Customs Service to collect and automatically check all the submitted export data. This program currently is being tested in Charleston, South Carolina. This system is being implemented incrementally and is planned for nationwide completion in several years.

U.S. Statistics on Trade with Mexico

U.S. statistics on trade with Mexico exhibit the same strengths and weaknesses as described above. The overall underreporting of exports to Mexico may be slightly higher than for general trade because of the high percentage of trade exported via overland transportation. Approximately 90 percent of the value of U.S. exports to Mexico moves by truck or rail. Since some U.S. exports to Mexico are shipped in small trucks, vans or cars the U.S. Customs Service has difficulty in distinguishing such trade from general passenger traffic, increasing the likelihood of underreporting. To improve the statistics, we are concentrating many of our exporter education efforts along the Mexican border to help the exporters better understand the reporting requirements.

The Census Bureau is currently working with Mexico's statistical agency, Instituto Nacional de Estadistica, Geografia e Informatica, (INEGI) in a trade data reconciliation project designed to identify and investigate where one partner's export data are significantly different from the other partner's

imports. While not aimed specifically at maquiladora trade, this activity allows the agencies to evaluate the quality of the overall trade statistics and identify areas for improvement.

The U.S. import data include articles assembled in maquiladora plants containing previously exported U.S. components but the data do not identify maquiladora products specifically. The data include the total value of the imported product, including the value of U.S. components. The Census Bureau compiles supplemental data on imports entered under Harmonized Tariff Schedule of the United States Annotated (HTSUSA) number 9802.008010 and 9802.00860 (articles assembled abroad wholly or partly from U.S. components) separating the value of U.S. and foreign components. Although these data cover more than maquiladora products, and not all maquiladora products may be recorded under this provision, they provide the best available approximation of this type of trade with Mexico.

I will discuss the issues relating to maquiladora trade more thoroughly later.

State Data

The Census Bureau currently publishes data on exports by state compiled from information provided on the export document. Prior to January of 1993 this information was unreported for about 20 percent of export transactions. Beginning in January, the Census Bureau began using the ZIP Code of the exporter to identify state, raising the reporting level to over 95 percent. Comparison to other Census Bureau data sources confirms this change to be an improvement in quality.

State data are available to the public only for much higher levels of product aggregation than is used for the general trade data. The release of more detailed data at the state level would disclose confidential business information from individual exporters.

State of destination data are not available for imports. The reported states often represent the business addresses of importers rather than destinations for the imported goods. Test compilation of state data shows disproportionally large volumes of imports attributed to large entry points such as New York or California.

We have worked with the Customs Service to correct the problem for imports. However, it is becoming apparent that at the time of importation the importer may often truly not know the state for which the goods are ultimately destined. Therefore, it is unlikely that we will ever have definitive state data, although we are making improvements.

Intra-Company Trade Data

The Census Bureau has recently produced initial import data on trade between related firms. "Related party trade" includes imports into the United States by U.S. companies from their subsidiaries abroad as well as imports by U.S. subsidiaries of foreign companies from their parent companies. It is defined as transactions between parties with various types of relationships including..."Any person or firm directly or indirectly owning, controlling, or holding with power to vote, 6 percent or more of the outstanding voting stock or shares of any organization..."

Although exporters are required to answer similar questions on relationship, a lower response rate does not allow the Census Bureau to compile accurate related party export statistics at this time. However, our education program, referenced earlier, includes proper reporting of this item as part of the training package.

U.S. Exports to Mexico

You asked whether U.S. export data identify parts and new or used capital equipment related to the assembly of U.S. products in Mexico and whether they identify the amount or percentage of exported parts that eventually return to the United States as finished products or the percentage of parts shipped to Mexico that were once assembled in the United States.

Regulations do not require exporters to differentiate goods intended for use in maquiladora operations from other exports to Mexico. Machinery and other capital equipment sent to a maquiladora are counted as U.S. exports. While the United States collects data on new and used goods separately for a few commodities, such as aircraft and motor vehicles, in most cases new and used merchandise is not differentiated. Likewise, exporters are not required to report whether their products are intended for processing and return or for consumption outside the United States.

U.S. export or import statistics currently do not completely measure the amount or percentage of exported parts that eventually return to the United States as finished products. While there is information on U.S. components incorporated into imported goods, the reporting code is designed for duty purposes and may not present a comprehensive picture of the use of U.S. components. Data on U.S. components also include goods produced in nonmaquiladora plants, and excludes shipments, both from maquiladora operations and from other sources, where the importer either cannot prove U.S. origin (or chooses a reporting option that does not require component identification).

Information from the trade statistics program on what parts are

shipped to Mexico that once were assembled in the United States does not exist.

You also asked whether trade data distinguish between parts sent to Mexico for assembly and finished products sent for consumption and between maquiladora and nonmaquiladora destinations. The U.S. trade data make no distinction between parts sent to Mexico for assembly and reexport to the United States and finished products sent for consumption in Mexico. We also do not distinguish between exports of parts or capital equipment whether to maquiladora and other destinations.

Availability, Accessibility, Reliability and Detail of the Data

The U.S. data, whether for trade with Mexico or with any other partner, are readily available in a variety of formats. The most detailed data are for 10-digit Harmonized System commodity codes by partner country and U.S. Customs district. This information is available in printed form, on CD-ROM disks and on magnetic tapes. These data are available for a fee from the Census Bureau or the Government Printing Office, depending upon the specific request. Our standard data products, including printed reports and CD-ROM disks, are also available for use at approximately 600 Federal depository libraries, at Census Bureau regional offices and at selected International Trade Administration district offices.

Other sources of data may prove useful. The BEA currently produces data on U.S. exports to or imports shipped by Mexican affiliates of U.S. companies and U.S. affiliates of Mexican companies based on its surveys of U.S. direct investment abroad and foreign direct investment in the U.S. For Mexican affiliates of U.S. companies, data are available annually by industry of affiliate and by whether the goods were shipped to or from the U.S. parent company or to or from others. Every 5 years, data by broad product category and, for exports, by whether the goods were for further processing, for resale without further processing, or were capital equipment for use by the affiliate, are available. However, for Mexican affiliates, no distinction is made between maquiladora and nonmaquiladora operations. Also, not all maquiladoras--those that are very small and those that do not take title to the goods--may be subject to the reporting requirements of BEA's surveys; thus, the BEA data may significantly understate U.S. trade with maquiladoras. In addition, the Census Bureau's Annual Survey of Manufactures provides information on levels of employment and shipments for specific manufacturing sectors. A separate report estimates, for each state, the number of jobs directly and indirectly related to exports of manufactured goods. The Census Bureau and the Bureau of Labor Statistics produce a joint quarterly report on trade and employment that provides measures on changes in U.S. imports, exports and employment. Data in the report are presented in terms of commodities organized by origin of production. Such an arrangement facilitates the comparison of change in imports and exports with changes in domestic employment.

Mr. Chairman, that concludes my testimony. I will be happy to answer any questions.

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Oversight of Government Management, Committee on Governmental Affairs, U.S. Senate

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U.S. TRADE DATA

Limitations of U.S. Statistics on Trade With Mexico

Statement of Allan I. Mendelowitz, Director
International Trade, Finance, and Competitiveness Issues
General Government Division

GAO/T-GGD-93-25

U.S. TRADE DATA:
LIMITATIONS OF U.S. STATISTICS ON TRADE WITH MEXICO

SUMMARY OF STATEMENT BY ALLAN I. MENDELOWITZ, DIRECTOR
INTERNATIONAL TRADE, FINANCE, AND COMPETITIVENESS ISSUES
GENERAL GOVERNMENT DIVISION

U.S. trade statistics undercount U.S. exports, according to several assessments. For example, when the United States and Canada reconciled their trade data, they discovered that reported U.S. exports were much less than recorded Canadian imports from the United States. In 1987, the United States and Canada signed an agreement to exchange administrative records on imports and use this information to determine each country's exports to the other. The Bureau of the Census is attempting to reconcile data on U.S. trade with Japan, South Korea, Australia, the European Community, and Mexico.

Although considered to be more accurate than export data, import data also have problems. The U.S. Customs Service and the U.S. Bureau of the Census attempt to identify and correct errors in the data filed by importers and to ensure that information is not lost or altered inadvertently as it goes through the many collection and processing steps.

According to Census officials, U.S. trade data probably undercount U.S. exports to Mexico. Also, it is difficult to use the data to unravel linkages between exports to Mexico of parts and components and imports to the United States of related items. The exports may leave the United States under one tariff classification, and the item made from the parts or components may return under a different tariff classification.

Mexico's maquiladora program allows Mexican and foreign investors to establish manufacturing plants in selected areas of Mexico to produce products for export, and exempts their imports from certain customs duties. U.S. trade data do not distinguish U.S. trade with maquiladora companies from other trade with Mexico.

While U.S. trade with maquiladoras cannot be measured directly, such trade can be estimated using statistics for imports that enter the United States from Mexico under production-sharing arrangements. Imports from Mexico under these arrangements can be used to estimate U.S. imports from maquiladora firms because it is believed that most such imports are from maquiladoras. It is not known how accurate these estimates are. This inaccuracy limits analysts' ability to directly link trade with maquiladoras using U.S. trade data.

If NAFTA is implemented, it may be more difficult to collect accurate trade data because Customs may have fewer reasons to closely monitor the collection of this information.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to testify on the quality of U.S. trade data. I will focus my comments on the limitations of trade data in general, and on the specific limitations we encountered in our work on U.S.-Mexican trade issues, particularly in the maquiladora program.

BACKGROUND

Merchandise trade data have many important uses. At the broadest level they are used to calculate the monthly U.S. trade balance, which has become one of the most closely watched of the nation's economic indicators. The U.S. Customs Service has relied on trade data to enforce quotas and other restrictions on imports. Commerce's International Trade Administration and the Office of the U.S. Trade Representative also use these data to develop and monitor the effects of trade policies. In addition to the federal government, major users of merchandise trade data include state and local governments, businesses, and the academic community.

The Treasury Department's U.S. Customs Service and the Commerce Department's Bureau of the Census share responsibility for compiling statistics on U.S. merchandise trade. One of Customs' primary missions is regulating the flow of merchandise into and

out of the country. To perform this mission, Customs is supposed to collect information on the nature, value, quantity, and origin or destination of virtually every shipment imported to or exported from the United States. Customs' main reason for collecting this information is to determine if proper duties and fees have been paid on the shipments and to ensure that the shipments have complied with all Customs laws and regulations. However, this information, together with other data on trade in services, also forms the basis for the statistics on the U.S.' trade position with other countries.

Over 90 percent of import information is submitted by importers or their brokers through an electronic data interchange with Customs. According to Census officials, about 50 percent of all export information is also submitted to Census using an automated system. The remainder is submitted using a paper reporting process. Customs transmits data to Census on shipments it approves for entry or export. Census then summarizes the data and releases them to the public in a series of reports.

UNDERCOUNTING OF U.S. EXPORTS IS A LONG-STANDING PROBLEM

The federal government has long suspected that U.S. exports have been undercounted. However, it was not until 1971, when the United States and Canada agreed to conduct an annual reconciliation of their trade data, that the extent of this

problem was discovered. The reconciliation showed that reported U.S. exports were much less than recorded Canadian imports from the United States. By 1986, the discrepancy was up to $11.5 billion, or 20 percent of the reported northbound trade between the United States and Canada.

Other studies have shown that this problem is not limited to exports to Canada. For example, in 1989 the Census Bureau found that $6.7 billion of exports through airports were not included in U.S. trade statistics because exporters or their agents had failed to file export documents. This amount was equivalent to about 7 percent of the value of merchandise the United States was reported to have exported by air in 1988. Also, a 1992 study by the National Research Council estimated that in recent years the United States had exported from $10 billion to $20 billion more than reported.

According to Census and Customs, Customs does not strictly enforce requirements that exporters submit documents accurately describing the type, value, and destination of the goods to be exported. Consequently, exporters are less diligent in reporting their shipments accurately or at all. Import data are believed to be more accurate and complete than export data because Customs inspectors and import specialists need import documents to assess duties and enforce import restrictions. There is no comparable incentive to scrutinize export documents.

EFFORTS TO IMPROVE EXPORT DATA

In 1987, the United States and Canada signed an agreement to exchange administrative records on imports and use this information to determine each country's exports to the other. U.S. and Canadian import statistics are considered to be more accurate than their export statistics because each country's Customs agency requires that importers file documentation at the time of entry of merchandise. Canadian and U.S. officials agree that the exchange has improved U.S. and Canadian export data.

Census currently does not use import data from nations other than Canada to determine U.S. exports. However, Census has ongoing efforts to reconcile data on U.S. trade with Japan, South Korea, Australia, the European Community, and Mexico. The objective of these reconciliations is to give Census a better idea about the quality of its trade data. Census has published the results of reconciliations for 1989 trade with Japan, the European Community, and South Korea.

These reconciliation efforts cannot completely account for the differences in trade data nor do they permit the exact amount of U.S. undercounted exports to be determined. Census and the reconciliation partner nations can adjust for some of the differences, but not enough information is available to adjust for other differences. For example, merchandise exported to the

United States from a reconciliation partner sometimes involves manufactured goods transhipped through a third country. Census often does not have access to sufficient information to determine how these shipments were counted by the reconciliation partner.

Census believes that discrepancies not resolved in reconciliation efforts to date represent the upper bound of the export undercount. The reconciliations on 1989 data that have been completed indicate that unresolved discrepancies were 2.9 percent for Japan, 3.3 percent for the European Community, and 7 percent for Korea. Census is still working on reconciliations with Mexico and Australia.

OVERALL QUALITY OF IMPORT DATA UNCLEAR

Although import data are generally considered to be more accurate than export data, they too have problems. Customs and Census use computer edits to identify and correct errors in the data filed by importers. These edits are useful for maintaining data quality. Yet recent evaluations of compliance and quality control procedures by the National Research Council and GAO reveal that there are problems with these procedures that could affect the accuracy of import data as well as export data.[1]

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[1]See Committee on National Statistics, Commission on Behavioral and Social Sciences and Education, National Research Council, Behind the Numbers: U.S. Trade in the World Economy (Washington, D.C.: National Academy Press, 1992); and Customs Service: Trade Enforcement Activities Impaired by Management Problems (GAO/GGD-

Census and Customs have attempted to improve their procedures, but more work is needed in this area. They may need to improve their procedures to guard against importers filing inaccurate information and to ensure that information is not lost or altered inadvertently as it goes through the many collection and processing steps.

Customs has been trying to expedite the flow of trade by automating the processing of cargo and declarations. These efforts will become more important as the movement of goods to and from Canada and Mexico increases. However, Census also is concerned that some aspects of Customs' automation plans may cause businesses to provide less detailed information on import and export transactions. For example, Customs would like to shift from a system in which importers file entries for each entry transaction to one in which they periodically report their entry activities. Census expressed the concern that these periodic reports, which might be filed monthly, could cover a variety of goods and may not provide the detailed information that could be obtained from single transaction entries.

<u>LIMITATIONS IN U.S.-MEXICAN TRADE DATA</u>

According to Census officials, U.S. trade data probably undercount U.S. exports to Mexico. In addition, it is hard to

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92-123, Sept. 24, 1992).

get a complete picture of U.S.-Mexico trade from the data. For example, U.S. trade statistics do not distinguish U.S. trade with Mexico's maquiladora industry from other trade with Mexico. Also, it is difficult to use the data to unravel linkages between exports to Mexico of parts and components and imports to the United States of related items. The exports may leave the United States under one tariff classification, and the item made from the parts or components may return under a different tariff classification.

According to Census officials, the magnitude of export underreporting to Mexico is unknown. However, these officials told us that any undercount probably is less than the 20-percent undercount that was found for Canada because the Mexican border is relatively more controlled. A Census official told us exports to Mexico could be undercounted because, while Customs officials are able to collect export documents from large trucks crossing the border, they are less likely to collect these documents from the many small trucks that do so.

A significant proportion of U.S. trade with Mexico is done with Mexican firms in the maquiladora program. Mexico's maquiladora program, which began in 1965 as part of Mexico's Border Industrialization Program, allows Mexican and foreign investors to establish manufacturing plants in selected areas of Mexico to produce goods for export. The manufacturing plants, called

"maquiladoras," produce finished or semifinished goods that are exported primarily to the United States. Foreign investors may own up to 100 percent of a maquiladora plant. As long as the maquiladora's products are exported, no Mexican duty is levied on imported machinery, raw materials, or components used to make the products.

Neither U.S. export nor import data directly measure U.S. trade with maquiladoras because U.S. import and export documents do not require traders to identify whether they participate in the maquiladora program. Further, the maquiladora program is a Mexican government program. The U.S. government's trade data system is not designed to collect information on U.S. companies that participate in foreign government programs.

While U.S. trade with maquiladoras cannot be measured directly, such trade can be estimated using statistics for imports that enter the United States from Mexico under production-sharing arrangements.[2] Under these arrangements, certain products assembled in foreign countries from U.S.-made components are only subject to duties on the value added in the foreign country, that is, on the residual of the total value of the imported product minus the value of the U.S.-made components. Imports from Mexico

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[2]Commodities enter the United States under these arrangements either under subheading 9802.00.60 or heading 9802.00.80 of the Harmonized Tariff Schedule (HTS) of the United States. Before January 1, 1989, entry occurred under items 806.30 and 807.00 of the former Tariff Schedules of the United States.

under these arrangements can be used to estimate U.S. imports from maquiladora firms because there are indications that a large proportion of these imports are from maquiladoras. Further, because most U.S. exports to maquiladora companies are then returned from the maquiladoras as exports to the United States, the portion of the production-sharing imports from Mexico that does not have duties--that is, that which originated in the United States--can be used to estimate U.S. exports to the maquiladoras.

It is not known how accurate these estimates are. U.S. imports under production-sharing arrangements do not correspond exactly with U.S. imports from maquiladoras. Products entering the United States under these arrangements may include imports from some Mexican companies that are not in the maquiladora program.

Moreover, production-sharing imports exclude some imports from maquiladora firms. Maquiladoras may export using the U.S. tariff provision most advantageous to them. In some cases, maquiladoras export to the United States under other U.S. tariff provisions, such as under the Generalized System of Preferences.[3]

U.S. trade statistics also do not capture other aspects of

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[3]The Generalized System of Preferences is a program under which the United States grants duty-free status on selected products to certain developing nations and territories. Mexico is the largest participant in this program.

maquiladora trade. In some cases, items the United States exports to maquiladoras under one HTS classification may, after being assembled, return to the United States under a different HTS classification. For example, electronic wire exported from the United States to maquiladoras can be returned to the United States as an automotive part. These factors limit analysts' ability to directly link trade with maquiladoras using U.S. trade data.

U.S. import and export documents could be modified to collect information on U.S. trade with maquiladoras. However, doing so would entail costs as well as provide benefits. According to Census officials, collecting this information would place additional burdens on exporters and importers, as well as on U.S. Customs and Census officials who must collect and compile the information. Further, if the North American Free Trade Agreement (NAFTA) is ratified, the Mexican government is expected to terminate the maquiladora program within 7 years since the tariff advantages of maquiladora operations will be sharply reduced.

U.S. MEXICAN TRADE DATA UNDER NAFTA

If NAFTA is implemented, it may be more difficult to collect accurate trade data because Customs may have fewer reasons to closely monitor the collection of this information. The U.S.-Canada free trade agreement, which went into effect at the

beginning of 1989, calls for the elimination of all tariffs by 1998. Likewise, NAFTA, if ratified by the United States, Canada and Mexico, will phase out tariffs over 15 years on trade between the three nations. Census officials and others in the statistical and trade communities believe that the elimination of duties by the free trade agreements would reduce the reasons for Customs to assure that import data are accurately filed by importers. This situation could then adversely affect the quality of trade data.

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Mr. Chairman, this concludes my prepared statement. I will be pleased to respond to any questions you or other Members may have.

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STATEMENT OF

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HEARINGS ON

The North American Free Trade Agreement:

The Quality of Data on Trade, Investment and Jobs

Subcommittee on Oversight of Government Management

Committee on Governmental Affairs

United States Senate

28 April 1993

It is a pleasure to appear before this Subcommittee to discuss the NAFTA. Our statement is based on two books that we coauthored: North American Free Trade: Issues and Recommendations (1992) and NAFTA: An Assessment (1993), both published by the Institute for International Economics. At the request of the Subcommittee, in these remarks we will focus on data issues. We will then offer a broader evaluation of the NAFTA.

Data Issues

Better data can certainly be collected on US trade and investment with Mexico and the connection between trade and investment flows and US jobs. Improved statistical information will be important for an on-going evaluation of the NAFTA, if it is ratified by all three legislatures. Let me list a few areas where our research has shown the need for better data.

1. Reconcile trade data. Mexico and the United States report different figures for bilateral imports and exports, mainly (but not exclusively) because of differing treatment of maquiladora trade. Following the precedent set by the United States and Canada, the statistical authorities of both countries should be directed to reconcile their figures.

2. Reconcile investment data. Mexico and the United States report different figures for US direct investment in Mexico. Basically, the Mexican figures

are higher than the US figures. Again, a reconciliation exercise is required.

3. Econometric assessment of job dislocation by imports. The US Commerce Department has carefully evaluated the connection between US exports and US jobs, using input-output techniques. It should apply the same techniques to evaluate the connection between US imports and US jobs dislocated. In particular, it should examine the fine-grained impact of two-way trade in two major sectors: automotive goods, and textiles and apparel.

4. Case-by-case assessment of job dislocation. An important concern of American workers is that the NAFTA will cause plant closures and job layoffs. Mexican workers have the same fears. So do Canadians. If NAFTA is ratified, we believe these concerns should be addressed by the North American Commission on Labor, that is likely to be established under the supplemental agreements currently being negotiated. The trinational commission should immediately set up a statistical task force to identify and tabulate case-by-case instances of job losses linked to changes in North American trade and investment patterns by comparison with a base year, say 1990. The task force will have to do most of its work in the field. To start, it should issue reports every six months. The task force should attempt to distinguish between job losses resulting from liberalization under the NAFTA, and job losses that might have occurred under pre-NAFTA trade rules.

5. Case-by-case assessment of job creation. The same task force should likewise identify case-by-case instances of job gains associated with trade and investment changes, again distinguishing between pre-NAFTA and post-NAFTA rules.

6. Wage suppression. An equally important concern of American workers is that NAFTA will lead to wage suppression. Here there are three concerns. First, that US workers will find themselves in head-to head competition with Mexican workers who achieve, say, 50 percent of US productivity but who are paid only 25 percent of the US wage rate. Second, that US firms will use the threat of relocation to Mexico as a bargaining chip in wage negotiations with US unions. Third, that the migration of Mexican workers to the US market will hold down wages for the lowest paid US workers. These concerns point to three separate statistical initiatives, if NAFTA is ratified:

- The North American Commission on Labor should immediately mount a sector-by-sector comparison of wage and productivity levels at the 3-digit SIC level.
- At the same time, the Commerce Department and the Labor Department should initiate a longitudinal study to evaluate whether a "Mexico effect" can be detected in the wage settlements negotiated by large and medium-sized US firms.
- Over a period of 20 or 30 years, the only answer to immigration pressure

from Mexico is a dramatic rise in Mexican living standards. NAFTA is not the magical key to Mexican prosperity, but over the long run it could be an important part of the answer. Whether or not NAFTA is ratified, a greater effort should be made to estimate the annual flow of immigrants; their geographic/industry sources and destinations; and the number of workers who permanently settle in the United States.

Overall Evaluation of the NAFTA

While we applaud the desire to improve data collection efforts, we do not want to leave the impression that an evaluation of NAFTA critically depends on more data. There is already ample information to make an informed judgment on the NAFTA. Our new book, NAFTA: An Assessment, provides a thorough economic analysis of the key aspects of the accord that was signed in December 1992. In our view, the supplemental agreements will make a constructive improvement in the mutual surveillance and convergence of environmental and labor conditions, but they will not change the overall tenor of the agreement.

The NAFTA received a great deal of attention during the election campaign. Since then, it has become a lightning rod for grievances about the US economy, particularly the "jobless recovery" and the falling real wages of low-skilled US workers during the 1980s. Proponents may have exaggerated the economic benefits of NAFTA, but critics have surely exaggerated its potential costs. To put the agreement into perspective, consider the following facts:

- The Mexican economy is less than 5 percent the size of the US economy; hence there are clear limits to the amount of goods it can produce and the capital it can absorb.

- Contrary to the claims of Ross Perot and others, Mexico is not a magnet for US investment: the stock of US direct investment in Mexico represented only 2.6 percent of worldwide direct investments by US firms at year-end 1991 (on a historic cost basis), and new equity capital flows from the United States to Mexico over the past three years represented only 6.7 percent of all such flows.

- Foreign direct investment in Mexico from all sources will, at the outside, reach $7-10 billion annually over the next five years. By comparison, plant and equipment investment in the US economy exceeds $500 billion annually.

- In most respects, the NAFTA involves commitments by Mexico to open its protected market to US and Canadian firms. Mexico will lower its trade barriers far more than the US will lower its barriers. Mexico has radically reformed its intellectual property, investment and services laws and regulations. Finally, Mexico is willing to enter into serious mutual surveillance of labor and environmental conditions. By contrast, US concessions are quite limited. Mexico already has relatively unfettered access to the US market; hence, with a few notable exceptions, and NAFTA reforms should not impose substantial <u>additional</u> adjustment burdens on the US economy beyond those that already exist. Indeed, by the standards of past trade agreements, the NAFTA represents a stunning success for US commercial diplomacy.

● Rising investment levels in Mexico almost automatically translate into larger shipments of capital goods from the United States. Higher living standards in Mexico translate into greater demand for US consumer goods as well. Total US trade with Mexico has almost doubled in the past five years, supporting new employment in US export industries and contributing to job dislocations in import-competing industries. On balance, many new US jobs have already been created. If the NAFTA is rejected, we would expect the United States to experience job losses by comparison with the situation in 1992.

● The United States has a significant labor adjustment problem that needs to be addressed regardless of the NAFTA. Compared to the 9 million workers displaced from their jobs during the period 1985-1990, however, job losses potentially attributed to the NAFTA represent only a small percentage of the total job dislocations in the US economy over a five-year period. The most pessimistic estimates suggest cumulative losses of 500,000 US jobs over about 5 years; our estimates suggest cumulative losses of under 150,000 jobs and in our judgement, these losses are more than offset by gross job gains of over 300,000 jobs.

● According to work by Lawrence Katz (done before he became the Chief Economist at the US Labor Department), at most 1.5 percentage points of the 12 percentage differential wage loss experienced by low-skilled US workers in the 1980s can be attributed to US imports from all countries. Mexico accounts for less than 10 percent of US imports.

● Based on the 1990 composition of trade, we have calculated that the

median weekly wages associated with US jobs "supported" by exports to Mexico, and US jobs "dislocated" by imports from Mexico, were practically the same (about \$420 to \$425 per week). There is no overall tendency for US exports to Mexico to support high-skilled US jobs nor for US imports from Mexico to displace low-skilled US jobs.

TESTIMONY OF
FRED GOFF, EXECUTIVE DIRECTOR, THE DATACENTER
BEFORE THE
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT
OF THE
COMMITTEE ON GOVERNMENTAL AFFAIRS
OF THE
UNITED STATES SENATE

APRIL 28, 1993

Good morning, my name is Fred Goff and I am the Executive Director of the DataCenter in Oakland, California. I would like to thank you and your staff for organizing these hearings and for inviting us to testify.

The DataCenter is a nonprofit research and information center focusing on political and economic issues. We provide strategic research and information services to public interest organizations including human rights, labor, environmental, religious, and grassroots community organizations, to government policymakers, and to journalists.

The idea behind the DataCenter is that accurate and reliable information is essential to any reform campaign addressing public policy issues. Yet all too often those involved in these campaigns or in public policy formation lack the time and resources to obtain the information they need in building their case, educating the public and mobilizing support. The DataCenter was created to fill this need.

We deliver our services through the maintenance of a research library which is open to the public, a customized research service, a clipping service, and three periodical publications. One of our specialties is corporate research and documenting a company's social and environmental record.

In your invitation you asked me to describe our work on plant closings. The origins of this project go back to the fall of 1981 when we were receiving increasing numbers of requests for information on the recession's growing impact on people's lives. At that time we created a monthly Steel Monitor which reproduced articles on the massive restructuring of the steel industry in which hundreds of thousands of workers lost their jobs.

This was followed by a four volume 520 page collection of articles titled Understanding and Combatting Plant Closures. Then in January 1982, with a small grant from the United Presbyterian Church, we launched the monthly Plant Shutdowns Monitor. Originally it consisted of reproductions of articles about individual plant closures and the recession's impact on communities across the nation. But with so many layoffs and

plant closings this soon became too much to cover and we started producing a computerized abstract which continues to this day.

The Plant Shutdowns Monitor is a monthly publication which tracks plant closures, layoffs, lockouts, wage cuts, worker concessions, and related data in the United States and Canada. As you can see from the sample issues we sent to the committee prior to this testimony, we include the name of the company, its parent company name if applicable, location, a standard industrial classification (SIC) code describing its principal product, the industry it is in, the number of workers affected, the type of event (such as layoff, closure, etc.) and relevant explanatory notes.

All of our data is drawn from published sources -- mainly the press. We originally retrieved it solely by monitoring the 550 or so periodicals we receive (including 15 daily newspapers). More recently we have developed a methodology for greatly expanding our listing by conducting online searches of electronic commercial databases to which we subscribe.

The Plant Shutdowns Monitor is available to the public via subscription. Our subscribers have included labor organizations and consultants, labor studies centers at universities, labor research organizations, state economic planning agencies, investment managers and advisors, and demolition companies.

In addition to offering the Plant Shutdowns Monitor as a monthly subscription item we also sell cumulative annual compilations of the data. And through our Search Service we perform customized research of our entire database as requested.

I believe that it was one of our Search Service clients, Harry Browne at the Inter-Hemispheric Resource Center in Albuquerque, who told you during his testimony before this committee on April 1st that he had sent us the names of 700 companies in Mexico whose production is geared to the U.S. market and asked us to correlate these with our plant closings listings. I believe we were able to help him identify over 200 companies which had closed plants in the U.S. and moved to Mexico.

This was just one example of the many ways in which the Plant Shutdowns Monitor has been used to make companies more accountable to their workers and the communities which host them, as well as to inform the drafting of wise public policy. A few other examples will further illustrate how this information can be useful.

1. We helped the National Labor Committee Education Fund in Support of Worker Rights in Central America, a committe of 21 international unions represented by their presidents, document 30 apparel companies which had laid off workers

and/or closed plants in the U.S. and relocated or subcontracted in Central America. These relocations happened with assistance from US taxpayer dollars through the U.S. Agency for International Development and other Government programs. You may have seen the results of this research on "60 Minutes" or Nightline" and I'm sure you heard about it in congressional debates.

2. Both the Labor/Community Strategy Center and the Center for the Study of Urban Poverty at UCLA have relied on our data to document the impact of plant closures on Los Angeles, most recently in South Central L.A.

3. We assisted the Oil Chemical and Atomic Workers Union and the Midwest Center for Labor Research in documenting plant closures and jobs which have been transferred to Puerto Rico. The OCAW used this information in fighting a major pharmaceutical company's closing of a plant in Indiana and in successfully filing a groundbreaking suit using the federal racketeering laws claiming the company eliminated U.S. jobs to take advantage of tax breaks by shifting production to Puerto Rico.

4. The International Labor Rights Education and Research Fund is a Washington, DC-based organization representing the interests of trade unions, human rights and international development organizations. The fund is seeking to hold the U.S. Government accountable to observing the labor rights provisions in existing U.S. international trade regulations. In particular, the Fund is using provisions in the law to stop the closure of U.S. plants and their subsequent reopening in countries which do not observe the labor rights provision of the law. We recently completed research on the links between worker displacement in the U.S. electronics industry and job creation in Malaysia where worker rights violations are well documented. By comparing a list of companies participating in the Malaysian-American Electronics Industry Association with our cumulative Plant Shutdowns Monitor we identified 135 separate instances of job displacement by these companies.

5. In our hometown of Oakland we have worked closely with the Plant Closures Project, a local member of the national Federation for Industrial Retention and Renewal, to provide case studies of plant closings for use in their efforts to help draft an industrial retention policy for the region.

6. The Hermandad Mexicana Nacional in Los Angeles relied on our plant closures database to document its case for a Department of Labor grant in support of its job-training program in California for Mexican-Americans.

7. Just a few weeks ago we were approached by a major environmental organization which is seeking to investigate the veracity of the claim being made by some business and political leaders in California that environmental regulations are producing a hostile climate for business and are forcing companies to pick up and leave for other states with weaker regulations. This organization was seeking a list of companies which had closed and left California in order to contact them and interview them as to why they had left.

8. We just completed a study for Senator Paul Wellstone listing plant closings in his state of Minnesota from 1982 to the present. He requested this information in preparation for a NAFTA fact-finding trip to Tijuana.

In all the above cases I think it is clear that the research would have been impossible to conduct without company-specific information. Corporations are probably the most powerful entities in our society. With power comes responsibility and accountability. Without systematic company-specific data there is very little to go on -- other than anecdotal or indirect evidence -- in holding a company accountable.

To my knowledge, we are the only source which systematically catalogs plant closings and layoffs by company name. In the fall of 1981, when we first set out to answer queries from clients, we checked to see if such information was available from government, commercial, academic, or labor sources. To our surprise, we found none. We were particularly surprised that the Bureau of Labor Statistics was not producing such data.

Over the last 15 years there have been a number of congressional efforts to mandate the gathering of data on plant closures, most specifically under the Job Training Partnership Act of 1982 and the Worker Adjustment and Retraining Notification Act (WARN) of 1988. The recent Congressional Research Service report for Congress at this subcommittee's request, "Plant Closings, Mass Layoffs, and Worker Dislocations: Data Issues," concluded that "still, after two legislative attempts to mandate collection of these data, the Government publishes no account of U.S. plant closings..."

This fact has been confirmed to us over the years by such government agencies as the Office of the Assistant Secretary of Defense (which wanted plant closures and layoffs data related to defense plant cutbacks). John Lynch, the Associate Director for Economic Adjustmnent, wrote to us in the mid-80s, after trying to get the information within the Government, that "yours is the only game in town." Likewise, Peter Rutledge, of the U.S. House Subcommittee on Labor Management Relations staff, told us "the

Plant Shutdowns Monitor is the single best source on the issue of plant shutdowns and worker dislocation."

In a conversation just a few days ago, as I prepared for this testimony, one of the regional Bureau of Labor Statistics senior staff members confirmed these assessments. He told me that he believes the tracking of this information is highly relevant -- "NAFTA is a good example" -- and that the BLS is not providing this kind of data. He thinks we are "doing a real service, filling a void."

Given the sources we rely on -- the press and published information -- our database inevitably contains errors and omissions. However, in many instances it has proven to be the best or only starting point available for those seeking company-specific plant closing data as well as those seeking aggregate statistics on plant closings and layoffs.

I wholeheartedly endorse your efforts to create a reliable Government source for plant closures data. We are prepared to assist you in this effort in whatever way we can. I would be happy to try to answer any questions you might have about our Plant Shutdowns Monitor, both at this hearing and in future communications with our office.

STATEMENT OF
THOMAS J. PLEWES
ASSOCIATE COMMISSIONER FOR

EMPLOYMENT AND UNEMPLOYMENT STATISTICS
BUREAU OF LABOR STATISTICS
UNITED STATES DEPARTMENT OF LABOR
BEFORE THE
SUBCOMMITTEE ON OVERSIGHT OF GOVERNMENT MANAGEMENT
COMMITTEE ON GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

APRIL 28, 1993

Mr. Chairman and Members of the Committee:

Thank you for this opportunity to describe the Bureau of Labor Statistics' information on plant closings and mass layoffs in general and the movement of plants to Mexico in particular.

The Bureau has maintained two sources of information on worker dislocation. On a biannual basis, the Bureau collects special information on dislocation through the Current Population Survey -- the same survey that provides monthly information on employment and unemployment. Though this survey provides important information on the situation of workers affected by mass layoffs and plant closings, it cannot identify specific layoff events or trace the impact of movements of firms to different parts of the country or outside of the United States.

A second source of information has been more useful in that regard. The Bureau of Labor Statistics operated the Mass Layoff Statistics (MLS) statistics program from October 1983 until it was terminated in November 1992. This program was created in response to Section 462(e) of the Job Training Partnership Act (PL 97-300), which provides that the Secretary of Labor develop and maintain statistical data relating to permanent mass layoffs and plant closings. In addition to directing the Secretary to publish a report annually, this section stated that the reported information include the number of such closings, the number of workers displaced, the location of the affected facilities, and the industries involved. BLS was given the responsibility to design the program to address these needs in late 1983. On April 4, 1984, BLS reported to Congress on the proposed program design and the associated developmental and ongoing costs. These were accepted by Congress, the program was funded, and implementation began in Fiscal Year 1985.

The MLS program was terminated for several reasons. It had grown in stages over a period of years, but had never become operational in all States. This limited its usefulness as a National economic indicator, as well as in program implementation activities directed by the Department's Employment and Training Administration. In 1993, funding to support the program was authorized, but not appropriated.

Given the high level of requests for discretionary funds to assist dislocated workers, the Department of Labor was disturbed about diverting Title III funds without seriously impacting the delivery of needed worker adjustment services.

The Bureau operated the MLS program as a joint Federal-State program which used a standardized, automated approach to identifying, describing, and tracking the effects of major job cutbacks. MLS program data were collected from each participating State's unemployment insurance database -- which provided socioeconomic information on the affected establishments and their workers who claimed unemployment benefits -- and from the employers, themselves.

In order to comply with Congressional intent and to minimize costs, we focused on large layoff events, identifying establishments which had at least 50 people filing initial claims for unemployment compensation against them during a consecutive 3-week period. These firms were contacted by the cooperating State agency to determine whether the layoff was over 30 days in duration, and, if so, information was obtained on the total number of persons separated and the reasons for these separations. Some 25 different reasons for separation were identified in the program, to accommodate the employers' responses.

Establishments which had experienced a mass layoff were identified according to detailed industry classification and location, and their former employees who had become unemployment insurance claimants were identified by such demographic characteristics as age, race, sex, ethnic group, and place of residence. An important element of the MLS program was its longitudinal component. The program yielded information on an individual's entire spell of insured unemployment, from the filing of the initial claim to the point when regular unemployment insurance benefits were exhausted. It provided a database of both establishments and claimants, which, in some cases, was used for further research and analysis on the nature of layoffs and the effects on workers. During the last year and a half of operation, the MLS program was reporting a quarterly average of nearly 1,200 plant closings and mass layoffs, affecting more than 200,000 workers in nearly every State of the Union.

As I have described above, any action which resulted in the separation of 50 or more workers filing for unemployment insurance fell within the scope of the MLS program. It was when the employer was contacted for supplemental data that information was collected which led to a determination as to whether a specific layoff event was a plant closing or a layoff. If the entire physical location was closing or had

closed, the event would have been identified as a "plant closing." Using this definition, if an accounting office or some other department remained open, or, in some cases, if the worksite closed but the company continued to operate elsewhere in the State, the layoff event would not be considered a "plant closing." However, it is important to note that the layoff event would have been included in the program count as a "mass layoff." In essence, closure of an establishment was considered a characteristic of the nature of a layoff action, rather than as a determining factor as to whether the activity was identified and included in the program statistics.

During the years that we operated the MLS program, we came to recognize that the definition of "plant closing" was too restrictive, as it did not allow us to identify a number of establishment actions which were of interest to data users. Therefore, as part of an extensive program review that we carried out in the late 1980's regarding the program, we proposed an expansion of the data to be collected from employers and a new definition of "plant closing" which would include partial closures of multi-unit establishments and the elimination of division, branches, or shifts in single unit establishments. Our plan was to switch to this new definition in the collection and reporting of the statistics, and we are still pursuing that objective in

developing a redesigned processing system in conjunction with the State of Nevada.

Let me turn to discussing the information on plant movements, particularly those which move out of the country. After we have identified events of potential interest, our State partners contacted employers to ascertain the reason for the layoff. One possible reason out of the 25-plus used in the program was that the establishment--in whole or in part--was moving out of the country. When they answered in the affirmative, beginning in 1991 a follow-up question was added to identify the specific country to which establishments were moving. The detail that we had available on out-of-country moves included the State in which the establishment was located, the industry of the establishment, the total number of workers separated, and the number and characteristics of those claiming unemployment benefits. Statistics on this activity for calendar year 1991 and January-June 1992 are appended to this statement. If you will turn with me to those tables, you can see that overseas relocation did not represent a significant proportion of all layoff activity and that Mexico was the largest single country of the few relocations we were able to identify.

In compliance with Section 462(e) of JTPA, BLS issued the

MLS program data in annual reports beginning with 1986 and ending with 1990. The sixth annual report, covering data for 1991, was in preparation when the MLS program was terminated. The MLS annual reports, copies of which I have with me, contained an extensive amount of information on plant closings and mass layoffs. Charts, tables, and analyses were provided at the aggregate level for participating States. Industry, reason for layoff, geography (including State of location for establishments and metropolitan area of residence for claimants), size of layoff, and claimant characteristics were discussed. Comparisons were made over time. In an appendix to the report, statistics and analysis were included for each of the States reporting MLS data.

In addition to the annual reports, BLS issued quarterly news releases of MLS data. The last such release was issued on December 17, 1992, covering aggregate and State data for the April-June 1992 period. A copy of the last release is appended to my testimony.

In the MLS program, a wealth of information was collected on the identified establishments and the associated workers involved in a plant closing or mass layoff. All of the characteristics I have mentioned can be tabulated and cross-tabulated in a multitude of ways. It was not feasible for

BLS to attempt to publish all such combinations of its data. Rather, we identified and published those tables which appeared to best address user needs. Additional cross-tabulations were prepared and used in developing analytical statements for the annual reports and quarterly news releases. Also, tabulations which were not part of our regular publication were provided to users upon request.

Data in the MLS program on individual claimants and establishments were collected with a pledge of confidentiality. Under the BLS confidentiality policy, BLS did not issue individually identifiable data on claimants or establishments. Thus, for example, data for any industry or State were not published if fewer than three establishments were reported in the time period under analysis or if one establishment represented 80 percent of total separations in the time period. Lastly, claimant data were not published if they were collected from a single firm, because that may have led to the identification of the establishment or the individuals.

The need to protect the confidentiality of the respondents resulted in limitations on the data published. Because plant closings comprised a relatively small proportion of both the total number of layoff events and total separations--10 to 15 percent--publication of cross-

tabulated data on the subject would be very limited. As you can see from the tables on out-of-country moves, while one-way tabulations were possible--for example, layoff events by country of relocation and layoff events by industry--cross-tabulations such as country of relocation by industry of establishment were not, because promised confidentiality of individual firms would have been compromised.

We have begun a reassessment of the information the Federal government collects on plant closings and layoff events. We recognize the need for accurate information to assess the impact of the North American Free Trade Agreement, and to support Secretary Reich's new approach to dislocated worker programs.

As we reassess the data collection, we will consider the amount and frequency of detail we provide, the scope of the data collection, and the cost in view of the uses. The data system that was discontinued last year was designed to answer a set of specific questions and respond to operational, allocation, and research needs that existed in the mid-1980s. Those needs may be changing. Thus, as the Administration's proposals for dislocated worker programs are developed, the Department will be considering the possibility of a new statistical component of the program -- one which will respond to the new data needs and new

realities. We look forward to working with Congress and the many data users out there as we rethink our approach to measuring the impact of plant closings and other layoff events.

I would now be happy to answer any questions the Committee may have.

MASS LAYOFF STATISTICS PROGRAM
OVERSEAS RELOCATION ACTIVITY, JANUARY-JUNE 1992

Table A. Selected measures of mass layoff activity, January-June 1992[1]

	Establish-ments	Layoff events	Separ-ations	Initial claimants
Total	2,155	2,188	359,660	294,637
Overseas relo	11	11	1,830	1,504
To Mexico	5	5	1,270	1,004

[1] Excludes California, Michigan, and Ohio for the entire period, and Alaska for April-June.

Table B. Events and separations for layoffs resulting from overseas relocation, January-June 1992

Area of overseas relocation	Layoff events	Separations
Caribbean and Central America	3	230
Mexico	5	1,270
Other	3	330

Table C. Overseas relocation activity by industry, January-June 1992

Industry	Layoff events	Separations
Nondurable goods	4	730
Durable goods	7	1,100

MASS LAYOFF STATISTICS PROGRAM
OVERSEAS RELOCATION ACTIVITY, 1991

Table A. Selected measures of mass layoff activity, 47 States, 1991[1]

	Establish-ments	Layoff events	Separ-ations	Initial claimants
Total	3,171	3,769	791,494	642,753
Overseas relo	19	19	2,874	2,909
To Mexico	6	6	810	647

1 Excludes California, Connecticut, Ohio, and Oregon.

Table B. Events and separations for layoffs resulting from overseas relocation, 1991

Area of overseas relocation	Layoff events	Separations
Mexico	6	810
Far East	6	1,159
Other	7	905

Table C. Overseas relocation activity by industry, 1991

Industry	Layoff events	Separations
Nondurable goods	10	1,507
Rubber and miscellaneous plastics products	3	443
Durable goods	9	1,367
Electrical and electronic equipment	4	603

News United States Department of Labor

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FOR RELEASE: IMMEDIATE
THURSDAY, DECEMBER 17, 1992

BLS REPORTS ON MASS LAYOFFS IN THE SECOND QUARTER OF 1992

The U.S. Department of Labor's Bureau of Labor Statistics reported today that, in the 46 states and the District of Columbia which reported data in the second quarter of 1992, 1,043 establishments had 1,063 mass layoff actions, resulting in the separation of 196,135 workers. Closure of the establishment accounted for 8 percent of the layoff events reported for the quarter; the main reasons continued to be "seasonal work" and "slack work" which comprised nearly 65 percent of both the layoff events and worker separations.

Table A provides quarterly data on mass layoff statistics for 1990, 1991, and the first half of 1992. Because the data are not adjusted for seasonality, comparisons are limited to changes from the same period a year earlier.

Among the 45 states and the District of Columbia reporting data in the second quarters of both 1991 and 1992, the number of mass layoff events remained about unchanged, while the number of worker separations rose by 4.9 percent over the year. The average number of separations per layoff event, at 184 workers, was up 5.1 percent. Seventy-nine percent of the separated workers filed for unemployment insurance benefits, little changed from a year earlier.

The Mass Layoff Statistics program covers layoffs of at least 31 days duration that involve 50 or more individuals filing initial claims for unemployment insurance during a consecutive 3-week period. Additional information about the program is provided in the technical note that follows this analysis.

Industry distribution of layoffs

As was the case in the prior 4 quarters, fewer than half of both the layoff events and separations during the second quarter of 1992 occurred in manufacturing. (See table 1.) Within manufacturing, the majority of the layoff activity occurred in durable goods industries, largely in transportation equipment and industrial machinery. Layoffs in nondurable goods industries were heavily concentrated in food processing and apparel.

> This news release is the last one that will be issued reporting on the Mass Layoff Statistics program, as the program has been eliminated due to a lack of funding (pursuant to Public Law 102-394).

(See table 2.) In nonmanufacturing industries, layoffs in services accounted for 39 percent of the separated workers, while trade and transportation and public utilities combined for another 37 percent.

Layoffs from business establishments in industries identified as "defense related" totaled 12,194 in the second quarter, up 71 percent from 7,117 a year earlier.

Table A. Selected measures of mass layoff activity

Period	Establish-ments	Layoff events	Separa-tions	Initial claimants
1990				
January-March ..... (46 states)	861	884	131,019	119,872
April-June .... (46 states)	839	862	150,361	108,429
July-September .... (45 states)	748	760	126,217	103,592
October-December .. (45 states)	1,069	1,095	176,280	145,362
1991				
January-March ..... (49 states)	1,462	1,501	288,496	257,959
April-June .... (49 states)	1,159	1,181	204,508	157,857
July-September .... (49 states)	937	956	153,245	134,166
October-December .. (49 states)	1,281	1,295	230,173	201,890
1992				
January-March ..... (48 states)	1,112	1,125	163,525	140,902
April-June .... (47 states)	1,043	1,063	196,135	153,735

NOTE: The number of states reporting data in the 3 years varies as a result of the following: Maryland began reporting in 1991, and Oregon began in 1992; Indiana reported for the first half of 1990, did not report during the second half, and resumed in 1991; Michigan and Ohio reported only for 1991; and Alaska did not report for the second quarter of 1992. California did not report data in any quarter. Finally, for purposes of these counts, the District of Columbia is included as a state.

Reasons for layoff

"Seasonal work" and "slack work" were given as the reasons for layoff in 64 percent of the layoff events and accounted for 63 percent of the separations. (See table 3.) "Slack work" was cited most often by manufacturing firms, especially those in the transportation equipment, industrial machinery, and apparel industries. "Seasonal work" was typical in food processing within manufacturing and in services, trade, and transportation and public utilities.

Size of layoff

Layoff events continued to be concentrated in the lower end of the size spectrum, with 56 percent involving fewer than 150 workers. (See table B, below.) The average size of layoffs (as measured by separations per layoff event) ranged from a low of 72 in tobacco products within manufacturing to 305 in agriculture.

Table B. Distribution of new layoff events by size of layoff, April-June 1992

Size	Percentage
Total	100.0
50-99	34.1
100-149	21.3
150-199	12.8
200-299	12.4
300-499	11.1
500-999	5.8
1,000 or more	2.1

Characteristics of claimants

A total of 153,735 initial claims for unemployment insurance in the second quarter of 1992 related to mass layoffs. Of these claimants, 12 percent were Hispanic, 49 percent were women, and 15 percent were 55 years of age and older. In the 42 states which reported data on them, blacks comprised 18 percent of the group. (See table 4.) The claimant statistics on mass layoffs show a greater concentration of older workers and a somewhat smaller proportion of blacks than are found among the total unemployed (8 and 24 percent, respectively, for the second quarter of 1992).

Nearly 34,000 individuals involved in mass layoffs exhausted their unemployment insurance benefits during the quarter. Only 13 percent of them were Hispanic, 42 percent were women, and 14 percent were 55 and

older. Blacks comprised 20 percent of the exhaustions in the 42 states reporting data for them. (See table 5.)

Geographic distribution

The largest number of worker separations was in Florida (27,593), where layoffs in educational services more than doubled (to 11,006) over the year. Next were New Jersey (14,263), Pennsylvania (14,074), New York (13,908) and Texas (11,259). These five states accounted for 41 percent of the total separations and 34 percent of the layoff events. (See table 6.) The average number of separations per layoff event varied greatly from state to state, as shown below in table C.

Table C. Average size of layoff for selected states, April-June 1992

State	Average layoff size
Total, 47 states	185
West Virginia	61
Nebraska	80
Hawaii	84
Vermont	95
North Carolina	96
Colorado	282
Florida	303
Indiana	304
Utah	333
District of Columbia	726

Technical Note

The Mass Layoff Statistics (MLS) program is a Federal-state program which uses a standardized, automated approach to identifying, describing, and tracking the effects of major job cutbacks, using data from each state's unemployment insurance database. Establishments which have at least 50 initial claims filed against them during a consecutive 3-week period are contacted by the state agency to determine whether these separations are of at least 31 days duration, and, if so, information is obtained on the total number of persons separated and the reasons for these separations. Establishments are identified according to industry classification and location, and unemployment insurance claimants are identified by such demographic characteristics as age, race, sex, ethnic group, and place of residence. The program yields information on an individual's entire spell of unemployment, to the point when regular unemployment insurance benefits are exhausted.

Information in this release will be made available to sensory impaired individuals upon request. Voice phone: 202-606-STAT; TDD phone: 202-606-5897; TDD message referral phone number: 1-800-326-2577.

Definitions

Defense-related industries. Industries that have been identified as vulnerable to Department of Defense budget reductions and the elimination of defense weapons systems. "Explosives," "ordnance and accessories," "radio and television communication equipment," "aircraft and parts," "shipbuilding and repairing," "guided missiles and space vehicles," and "tanks and tank components" industries have been identified as defense-related industries based on analysis that at least 50 percent of industry output was consumed by the U.S. Department of Defense.

Establishment. A unit at a single physical location at which predominantly one type of economic activity is conducted.

Exhaustee. A person who has used up all unemployment insurance benefits within a benefit year.

Initial claimant. A person who files any notice of unemployment to initiate a request either for a determination of entitlement to and eligibility for compensation, or for a subsequent period of unemployment within a benefit year or period of eligibility.

Layoff. The separation of persons from an employer as part of a mass layoff event. (See below.) Such layoffs involve both persons subject to recall and those who are terminated by the establishment. Information is not available on the breakdown between those who are recalled and those who do not return to their old jobs.

Layoff event. Fifty or more initial claims for unemployment insurance benefits from an establishment during a consecutive 3-week period, with at least 50 workers separated for more than 30 days.

Table 1. Industry distribution: Mass layoff events, separations, and initial claimants for unemployment insurance, 47 states, April-June 1992

Industry	Establishments	Layoff events			Separations	Initial claimants
		Total	New	Related to prior layoffs		
Total, all industries1/	1,043	1,063	872	191	196,135	153,735
Agriculture	50	51	42	9	15,240	7,516
Nonagriculture	993	1,012	830	182	180,895	146,219
Manufacturing	393	400	308	92	63,174	63,968
Durable goods	213	217	168	49	37,312	37,813
Nondurable goods	180	183	140	43	25,862	26,155
Nonmanufacturing	600	612	522	90	117,721	82,271
Mining	21	23	18	5	3,716	2,930
Construction	68	72	57	15	11,167	9,131
Transportation and public utilities	97	98	90	8	18,379	14,097
Wholesale and retail trade	139	140	113	27	25,198	21,626
Wholesale trade	23	23	21	2	4,191	2,866
Retail trade	116	117	92	25	21,007	18,760
Finance, insurance, and real estate	26	27	15	12	6,622	3,349
Services	224	226	208	18	46,187	26,090
Government	23	26	21	5	6,252	6,068

1/ Data on layoffs were reported by employers in all states and the District of Columbia, except in Alaska, California, Michigan, and Ohio.

Table 2. Manufacturing: Mass layoff events, separations, and initial claimants for unemployment insurance, 47 states, April-June 1992

Industry	Establishments	Layoff events	Separations	Initial claimants
Total manufacturing1/	393	400	63,174	63,968
Durable goods	213	217	37,312	37,813
Lumber and wood products	4	4	462	388
Furniture and fixtures	9	9	1,387	1,132
Stone, clay, and glass products	4	4	379	249
Primary metal industries	15	15	1,720	2,726
Fabricated metal products	27	27	2,381	2,647
Industrial machinery and equipment	36	37	7,819	3,986
Electronic and other electrical equipment	29	30	5,136	5,317
Transportation equipment	56	58	15,081	15,977
Instruments and related products	26	26	2,022	2,762
Miscellaneous manufacturing industries	7	7	597	429
Nondurable goods	180	183	25,862	26,155
Food and kindred products	72	75	10,327	9,937
Tobacco products	9	9	644	1,069
Textile mill products	18	14	2,191	1,913
Apparel and other textile products	40	40	6,327	7,516
Printing and publishing	11	11	1,616	1,602
Chemicals and allied products	8	8	1,499	1,437
Rubber and miscellaneous plastics products	10	14	1,460	1,026
Leather and leather products	6	6	1,093	1,188
Other nondurable goods	6	6	383	449

1/ See footnote 1, table 1.

Table 3. Reason for separation: Mass layoff events, separations, and initial claimants for unemployment insurance, 47 states, April-June 1992

Reason for separation	Layoff events	Separations	Initial claimants
Total, all reasons1/	1,063	196,135	153,735
Automation	6	893	814
Bankruptcy	33	4,444	3,690
Business ownership change	22	4,177	2,351
Contract cancellation	28	3,543	4,064
Contract completion	74	13,620	9,245
Domestic relocation	40	6,363	5,537
Import competition	9	1,790	1,329
Model changeover	6	3,475	3,568
Overseas relocation	5	1,000	900
Plant or machine repairs	7	1,003	1,009
Seasonal work	451	92,565	60,532
Slack work	234	31,367	30,968
Vacation period	3	1,466	1,785
Other reasons	84	20,600	18,073
Not reported	61	9,829	9,870

1/ See footnote 1, table 1.

Table 4. State and selected claimant characteristics: Mass layoff events and initial claimants for unemployment insurance, April-June 1992

State	Layoff events	Initial claimants	Percent of initial claimants: Black	Hispanic origin	Women	Persons age 55 and over
Total, 47 states	1,863	153,735	1/18.4	11.6	49.3	15.3
Alabama	32	3,518	35.9	.1	35.8	10.9
Arizona	43	7,941	(2)	53.4	39.5	10.3
Arkansas	7	649	12.8	.6	40.8	7.9
Colorado	15	1,766	4.6	17.9	46.5	18.1
Connecticut	69	8,914	12.8	5.8	45.7	14.8
Delaware	4	287	25.8	2.8	87.1	20.2
District of Columbia	3	661	85.0	8.2	67.8	12.1
Florida	91	11,766	26.2	21.1	31.8	14.6
Georgia	14	2,027	41.4	1.8	41.1	8.6
Hawaii	5	631	(2)	1.2	36.4	12.3
Idaho	10	1,128	(2)	16.5	53.8	10.1
Illinois	67	7,808	23.0	3.2	44.8	11.3
Indiana	16	1,735	11.4	4.8	53.8	9.2
Iowa	13	1,873	2.2	4.8	48.8	8.9
Kansas	12	2,058	12.1	2.4	46.2	7.6
Kentucky	16	1,561	4.9	.1	69.3	12.6
Louisiana	33	3,681	37.4	.9	42.1	8.7
Maine	13	2,349	(2)	.2	41.5	13.5
Maryland	19	2,187	29.7	.6	51.4	12.7
Massachusetts	27	6,201	3.2	3.4	56.1	20.4
Minnesota	28	4,673	1.5	1.1	32.9	13.2
Mississippi	27	3,446	77.5	.1	76.1	18.5
Missouri	31	5,333	24.1	.5	60.8	16.6
Montana	6	666	-	.9	31.8	8.1
Nebraska	3	198	17.7	2.8	53.0	16.1
Nevada	4	687	18.3	8.9	46.1	10.5
New Hampshire	8	859	-	.1	33.2	6.4
New Jersey	78	11,297	17.3	12.8	56.8	24.0
New Mexico	11	1,188	2.2	58.7	55.3	5.6
New York	60	8,887	13.7	14.9	54.8	14.6
North Carolina	17	1,451	58.9	.3	58.8	14.1
North Dakota	3	307	-	.7	44.8	11.4
Oklahoma	7	1,261	8.8	.6	21.6	42.5
Oregon	5	508	.8	3.1	38.4	13.8
Pennsylvania	97	17,150	10.3	1.7	58.7	16.4
Rhode Island	10	991	7.6	5.2	45.6	18.9
South Dakota	-	-	(2)	-	-	-
South Carolina	18	2,013	54.8	.1	70.6	4.4
Tennessee	10	675	18.5	-	44.9	12.3
Texas	40	12,102	10.9	42.4	49.1	22.0
Utah	7	1,236	1.1	3.3	59.5	4.8
Vermont	12	1,103	.3	-	46.2	6.7
Virginia	20	3,364	39.6	.1	41.6	13.9
Washington	17	2,876	4.3	9.8	47.3	10.6
West Virginia	8	426	2.6	-	12.7	6.1
Wisconsin	27	4,183	11.7	.8	65.3	17.5
Wyoming	-	-	-	-	-	-

1/ Represents the number of black claimants in the 42 states reporting data for blacks as a percent of total claimants in the 42 states.

2/ Data were not reported for blacks. The proportion of claimants of other races who were American Indians or Alaskan Natives was 23.6 percent in Arizona; 1.1 percent in Idaho; and 8.1 percent in Maine. The proportion was zero in South Dakota. In Hawaii, the proportion of Asians or Pacific Islanders was 78.1 percent.

NOTE: Dash represents zero or rounds to zero.

Table 5. State and selected characteristics of unemployment insurance exhaustees involved in mass layoff events, April-June 1992

State	Total exhaustees	Percent of total			
		Black	Hispanic origin	Women	Persons age 55 and over
Total, 46 states1/	33,869	2/20.3	13.0	41.6	14.0
Alabama	677	58.1	-	39.1	8.3
Arizona	1,298	(3)	60.0	30.5	8.6
Arkansas	238	22.3	-	56.7	5.5
Colorado	79	7.6	12.7	38.0	8.9
Connecticut	645	11.8	4.5	32.6	12.9
Delaware	54	42.6	1.9	50.0	7.4
District of Columbia	349	93.6	.9	53.9	3.2
Florida	5,137	21.6	20.7	42.0	18.0
Georgia	939	38.3	.7	44.3	11.9
Hawaii	99	(3)	-	19.2	18.2
Idaho	278	(3)	15.1	33.8	10.1
Indiana	453	20.1	5.1	51.9	6.4
Iowa	251	4.4	2.4	37.5	4.4
Kansas	152	11.2	3.9	42.1	12.5
Kentucky	593	3.5	-	23.3	12.8
Louisiana	593	42.2	.5	25.3	8.6
Maine	462	(3)	.2	45.5	8.4
Maryland	49	24.5	-	40.8	24.5
Massachusetts	1,117	3.2	5.1	51.2	15.7
Minnesota	1,005	5.2	.3	32.4	15.5
Mississippi	256	71.5	-	59.4	2.7
Missouri	953	17.1	.6	61.1	13.6
Montana	23	-	-	26.1	21.7
Nebraska	3	-	33.3	66.7	-
Nevada	57	14.0	12.3	56.1	12.3
New Hampshire	-	-	-	-	-
New Jersey	2,077	21.0	16.6	48.5	18.2
New Mexico	270	1.9	63.0	5.2	9.3
New York	5,609	15.4	18.1	35.9	16.5
North Carolina	529	61.6	.8	51.2	7.8
North Dakota	67	-	-	59.7	20.9
Oklahoma	16	18.8	-	50.0	12.5
Oregon	57	-	5.3	28.1	14.0
Pennsylvania	2,782	11.5	.4	35.9	14.3
Rhode Island	76	6.6	14.5	28.9	21.1
South Carolina	617	41.3	.2	51.5	9.4
South Dakota	-	(3)	-	-	-
Tennessee	437	15.8	.2	51.9	12.6
Texas	2,626	21.4	23.4	51.0	13.4
Utah	97	-	15.5	56.7	7.2
Vermont	25	-	-	44.0	20.0
Virginia	1,020	34.0	.1	56.1	9.8
Washington	351	2.3	15.4	43.3	13.1
West Virginia	427	1.6	-	7.0	8.4
Wisconsin	998	5.2	10.9	45.5	19.3
Wyoming	8	-	-	-	12.5

1/ Data were not available for Illinois.
2/ Represents the number of black exhaustees in the 42 states reporting data for blacks as a percent of total exhaustees in the 42 states.
3/ Data were not reported for blacks. The proportion of exhaustees of other races who were American Indians or Alaskan Natives was 9.9 percent in Arizona; 0.4 percent in Idaho; and 0.6 in Maine. The proportion was zero in South Dakota. In Hawaii, the proportion of Asians or Pacific Islanders was 55.6 percent.
NOTE: Dash represents zero or rounds to zero.

Table 6. State distribution: Mass layoff events, separations, and initial claimants for unemployment insurance, April-June 1992

State	Establishments	Layoff events	Separations	Initial claimants
Total, 47 states	1,043	1,063	196,135	153,735
Alabama	31	32	4,678	3,518
Arizona	43	43	8,830	7,941
Arkansas	7	7	924	649
Colorado	14	15	4,237	1,766
Connecticut	64	69	8,722	8,914
Delaware	4	4	526	287
District of Columbia	3	3	2,179	661
Florida	89	91	27,593	11,766
Georgia	14	14	2,582	2,027
Hawaii	4	5	418	431
Idaho	10	10	1,943	1,128
Illinois	66	67	7,725	7,808
Indiana	16	16	4,870	1,735
Iowa	13	13	1,452	1,873
Kansas	12	12	2,491	2,858
Kentucky	16	16	1,933	1,561
Louisiana	30	33	4,973	3,681
Maine	13	13	1,947	2,349
Maryland	19	19	2,442	2,187
Massachusetts	27	27	6,122	6,201
Minnesota	28	28	5,081	4,673
Mississippi	27	27	4,232	3,446
Missouri	30	31	6,280	5,333
Montana	6	6	1,165	666
Nebraska	3	3	239	198
Nevada	4	4	1,005	687
New Hampshire	8	8	964	859
New Jersey	77	78	14,263	11,297
New Mexico	11	11	2,518	1,180
New York	60	60	13,908	8,887
North Carolina	16	17	1,638	1,451
North Dakota	3	3	397	307
Oklahoma	7	7	1,844	1,261
Oregon	5	5	995	508
Pennsylvania	97	97	14,074	17,150
Rhode Island	9	10	1,242	991
South Carolina	18	18	2,357	2,013
South Dakota	-	-	-	-
Tennessee	10	10	1,962	675
Texas	40	40	11,259	12,102
Utah	6	7	2,332	1,236
Vermont	12	12	1,140	1,105
Virginia	20	20	3,185	3,364
Washington	17	17	2,712	2,876
West Virginia	7	8	489	426
Wisconsin	27	27	5,127	4,103
Wyoming	-	-	-	-

NOTE: Dash represents zero.

"I can't find good, loyal workers for a dollar an hour within a thousand miles of here."

YES YOU CAN YUCATAN

We're only 460 miles and 90 minutes by air from the U.S.

Labor costs average under $1 an hour, including benefits. Far lower than in the Far East. And less than CBI, Central America and even less than the rest of Mexico.

The turnover rate is less than 5% a year.

And you could save over $15,000 a year, per worker, if you had an offshore production plant here.

So if you want to see how well you or your plant managers can live here while making your company more competitive, call for a free video tour of the State of Yucatan at 708-295-1793.

When the U.S. is too expensive and the Far East too far, "Yes You Can In Yucatan."

Government of the State of Yucatan, Mexico.
Department of Industrial and Commercial Development.

YU-91-B-2

RELOCATION IN MEXICO OF U.S. COMPANIES

(Prepared by Oversight of Government Management Subcommittee staff based on information provided by The Resource Center, Albuquerque, New Mexico)

RELOCATION IN U.S. OF MEXICAN COMPANIES

(Prepared by the Oversight of Government Management Subcommittee staff from information provided by The Resource Center)

I V E D C O
22772 CENTRE, SUITE 290 - EL TORO, CALIFORNIA 92630
(714) 770-2635 FAX (714) 770-3067

AN INTRODUCTION
TO MANUFACTURING IN MEXICO

Presented by

IVEDCO, Inc.
(a California Corporation)

MANUFACTURING IN MEXICO

WHY GO OUTSIDE THE U.S.?

Labor represents a large percentage of most companies' costs. "Labor", of course, includes not only direct hourly wages, but also the indirect labor, supervision and technical support that make up a large portion of overhead costs.

To reduce labor costs, many companies have turned to automation, wage reductions, cost reduction programs, profit sharing programs and job enrichment programs. For some, these actions have been sufficient. But for many others, especially those fighting foreign competition, these steps haven't accomplished enough. The basic problem with global competition is that many countries have hourly and salaried wage rates that are far below those in the U.S. To compete, you may have to use some of this non-U.S. labor. It may cost some production jobs in your U.S. plant, but by becoming more competitive, you will be able to grow and create other jobs. Thousands of U.S. companies have felt it necessary to take this route, by buying parts overseas, subcontracting fabrication and assembly work, buying finished product from foreign sources or setting up their own facilities.

WHY GO TO MEXICO?

In the 1970's and early 1980's, most companies that ventured offshore went to Southeast Asia. They accomplished most of their objectives, but several problems often arose:

- Communications were difficult.
- "Letters of Credit" tied up their lines of credit.
- Quality problems necessitated hiring outside QC firms for on-site inspections.
- Tooling somehow became the permanent property of the vendor.
- Delivery performance was sometimes sporadic.
- Shipping and customs lead times required purchasing products far in advance of requirements and increasing finished goods and raw materials inventories to provide a cushion.
- Designs were copied by foreign competitors.

In addition to these problems, wage rates have started to rise in many Asian countries, lessening the comparative advantage. And the dollar's fall has made many of their currencies more expensive.

So, in the past few years, over 1,000 U.S. companies have turned to Mexico for their labor requirements, particularly for assembly or processing operations with raw materials or components supplied from the U.S. Going to Mexico offers the following advantages:

1. The Republic of Mexico set up the Maquiladora program in 1965. This program, coupled with Section 807 of the U.S. Tariff Code, allows U.S. companies to bring U.S. raw materials and components into Mexico duty free and bring semi-finished or finished goods back into the U.S. with duties typically paid only on the value added by Mexican labor.

2. Many Maquiladora management companies have their headquarters in the U.S. This allows you to deal with them just like you would any other U.S. vendor, with easy communications, no letter of credit (just simple contracts and purchase orders).

3. You can maintain tight control on the flow of raw materials, tooling and production processes.

4. Because most plants are close to the border, you can frequently inspect the facilities to ensure QC procedures are being followed. Your customers' inspectors, U.L. and regulatory agencies can do the same.

5. Reduced shipping times reduce forecasting problems and reduce your required investment in finished goods inventory.

6. More reliable shipment schedules facilitate just-in-time factory management.

7. Mexican wage rates for hourly and salaried workers are equivalent to or lower than those in any Asian country. Hourly wages are 25% lower than those in Hong Kong or Taiwan. For example, minimum wage is approximately $0.90 per hour, including all fringe benefits.

8. The Mexican peso has been falling in relation to the U.S. dollar, while most Asian currencies have been rising.

9. Mexico has a large pool of highly motivated semiskilled and unskilled labor, which is ideal for most assembly and packaging operations. It also has a growing supply of middle and upper management and technical personnel, many of whom have been trained in the U.S.

10. Surveys show that more U.S. jobs are preserved when operations are moved to Mexico compared to moving to the Far East, because U.S. companies retain more involvement in providing raw materials, technical support and shipping.

11. Due to Mexico's growing oil and electrical industries, energy rates are about one third of those in the U.S.

12. As a general rule, you will be able to save at least 50% of all the costs associated with each production or support person when that position is moved to Mexico.

    (Note: As you may have noticed in business publications and news-papers, many Japanese companies have also been setting up operations in Mexico, for some of the same reasons).

HOW TO ACCOMPLISH YOUR MOVE

You can operate under the Maquiladora program in any of the following ways:

Subcontract

You engage a Mexican job shop to assemble or process your materials, just as you wouldin the U.S. You pay for the work by the hour or by the piece; the vendor handles all customs paperwork and tax obligations.

"Shelter"

A Maquiladora management company can provide facilities, production personnel and administrative and technical support for your production. You provide the raw materials, equipment and tooling, pay for labor hours incurred, exercise quality control and schedule production. You or the Maquiladora management company can provide general management personnel. Having your own employees work exclusively on your products increases efficiency and can reduce labor costs compared to subcontract labor.

Subsidiary

You may choose to set up your own wholly-owned subsidiary. You can do this on your own, or have a Maquiladora management company set it up and manage it for you temporarily. You may provide whatever management personnel you wish. If your plant is close to the border, your management may commute from the U.S.

There are dozens of companies that could help you set up Maquiladora operations in Mexico:

- Mexican job shops with U.S. sales representatives,
- Mexican industrial park management companies,
- Shelter management companies, some based in the U.S., some in Mexico,
- Independent consultants, some of whom are builders or attorneys.

Our company, IVEDCO, is a well established Maquiladora management company headquartered in Orange County, CA. We manage shelter programs, have our own job shops, and provide subsidiary consulting services. The following section explains why we believe that dealing with IVEDCO will give you the best possible results.

WHY CHOOSE IVEDCO ?

1. We can offer and manage any type of maquiladora arrangement desired:

   - **Subcontract Work** - with IVEDCO owned job shop facilities.
   - **"Shelter Program"** - IVEDCO can manage a separate facility and staff for your operations; facilities can also be shared with other U.S. companies to reduce costs. Plant space is available in Mexicali and Tecate.
   - **Subsidiary** - IVEDCO can provide consulting services to help you set up your wholly owned subsidiary.
   - **"Incubator"** - If you want your own wholly owned subsidiary in the long run but want someone to set it up and temporarily manage it for you, IVEDCO can provide unique "incubator" management services.

2. IVEDCO has experienced American general management and operations management personnel located in Orange County, California and experienced Mexican operations management personnel in Mexico. All IVEDCO managers have previously worked for U.S. companies that set up Maquiladora operations.

3. We have extensive experience in Maquiladora management, having successfully brought ten companies into Mexico in the last three years.

4. Operations personnel can offer extensive manufacturing engineering and I.E. support to expedite your move.

5. IVEDCO has in depth experience in quality control. We can implement statistical process control sampling procedures, and qualify your facility for your U.S. customers or testing and/or regulatory agencies.

6. Company communications and transportation systems include telephone, facsimile machines, company personnel vans and company tractor and trailers.

7. We have experience in a broad range of manufacturing processes, including electronics assembly, mechanical assembly, painting, metal polishing and finishing, welding, stamping, die casting, sand casting, cleanroom operations, sterilization procedures, fiberglass, molding, packaging and sewing.

8. IVEDCO maintains excellent relations with Mexicali and Tecate city officials, Baja California sta officials, local attorneys and builders, accounting and real estate development firms, U.S. Customs specialists and customs brokers.

9. We are familiar with manufacturing companies within Mexico, enabling us to buy selected raw materials at favorable prices.

10. IVEDCO maximizes the use of Mexican management in their manufacturing facilities. The gene experience of all U.S. companies in Mexico shows this is the most reliable, productive and cost effective method. IVEDCO can provide staffing for all managerial levels as desired.

11. The burdened labor rates you will pay are competitive with all other Maquiladora operations. Additional costs such as rent, utilities, shipping are typically passed through to you with only a small administrative charge.

12. IVEDCO can handle all paperwork related to permits, customs arrangements, incorporation, Mexican payroll and federal taxes.

13. IVEDCO's customs brokers can provide warehouse space in Calexico and Tecate, CA., for staging shipments in and out of Mexico. Finished goods can be shipped from these locations direct to your customers, if desired.

14. If you wish to purchase or construct your own plant, IVEDCO can assist in locating land or buildings and can handle the purchase transaction or construction management.

15. Contractual arrangements with IVEDCO are simple and flexible. Under the shelter program, the normal commitment is for a minimum of 15 hourly personnel for twenty-four months or more, with termination or extension provisions.

16. Our customers include divisions of several Fortune 500 companies. Specific references can be supplied upon request.

WHAT NEXT?

We recommend that the following steps be taken:

1. Meet with IVEDCO personnel at your facility, for further details and a review of your present operations.

2. IVEDCO will prepare a detailed proposal and implementation timetable, tailored to your needs.

3. Visit IVEDCO production facilities in Mexico.

In this way, we can provide all the data you need for a decision about operating in Mexico.

If you desire to study the Maquiladora Program in more detail, the following reference material may be requested from our offices in El Toro, California:

**AN OVERVIEW OF THE
MAQUILADORA PROGRAM
IN MEXICO**

Collectron of Arizona, Inc.
3000 Mariposa Road
Nogales, AZ 85621
(602) 287-6695

I. Business Description:

A. Principal Business:

- Collectron is a shelter operator that starts up companies and provides administrative support for them to assemble or manufacture under the Mexican maquila program.

- Under the Shelter Plan, a corporation is merely hiring labor from Collectron and using Collectron's facilities and services located in Mexico. Collectron's subsidiaries are licensed Mexican corporations. Collectron, though, is an American firm licensed in Arizona.

- Collectron began in 1965 and is now the country's second largest net generator of foreign exchange. It holds top priority with the Mexican Federal Government.

B. Foreign Operations:

- Collectron's Maquila Access Services will put corporations in contact with reputable contract manufactureres in the states of Sonora, Baja California and Chihuahua.

- An abundant supply of low cost, quality conscious workers are available in the industrial regions of northern Mexico. And here you are located at, or within a few hours of the U.S./ Mexican border.

- Mexico's legally fringed minimum hourly wage has decreased from $1.59 in 1981 to $0.71 in 1988. The U.S. had an average manufacturing wage of $13.90 in 1988 while Hong Kong had $2.43, Japan had $11.14 and Korea had $2.46 in 1988. Other southeast countries have comparable salaries of around $2.

- **Collectron has successfully started** over 60 U.S. **companies** in five Mexican **cities** in which it operates. A list of these companies is included in the brochure.

C. Product Names: No indication of specific Collectron product.

III. Legal Proceedings: Not included in mailing.

COLLECTRON'S
MAQUILA ACCESS SERVICES™ SHELTER PLAN
STARTED THESE U.S. AND FOREIGN
MANUFACTURERS IN MEXICO:

COLLECTRON
OF ARIZONA, INC.

A.M.S.D.
Adams Russell
American Brands/Wilson Jones
American Electric Cordsets
AMP Incorporated
Applied Magnetics
Applied Power, Incorporated
Arizona Cambion Corporation
Badger Meter Company
Bali Company, Incorporated
Burndy Corporation
Chamberlain Mfg. Corporation
Chrysler Corp./Coleman Products Company
Coin Art
Collectron Corporation
Communications Instruments, Incorporated
Datamag, Incorporated
Data Mex, Incorporated
Delmed, Incorporated
Denticon
Deseret Company
Disposable Profiles Spartan, Inc.
Eberhard-Faber
EMCO-Wheaton
Elkhart Door, Incorporated
Erie Glass
Foster Grant Corporation
General Electric Company
Hiltronics West Group
Hyson Industries
Hubbell Hermetic Refrigeration Corporation
ITT Cannon
ITT PowerSystems
Leech Tool & Die
Lundby of America
Magnetic Metals Corporation
Marathon Electronics Manufacturing Company
Maxtor Corporation
McCulloch Corporation
Memorex Corporation
Molex, Incorporated
Optimize Manufacturing Company
PMI Motion Technologies
Poulan Weed Eater
Prestini de Mexico
Prestolite Wire
Rockwell International
S.L. Abrasives, Incorporated
S.L. Waber, Incorporated
Samsonite Corporation
Schlage Lock Company
Shugart Associates, Incorporated
Superior Healthcare Group
Thermax Wire Corporation
United Technologies, Incorporated
Verbatim (Eastman Kodak)
Walbro Corporation
Whitney Blake Company of Vermont, Incorporated
Wickes Manufacturing Company
Xerox Corporation
Yupiteru Industries, Ltd.

1/90

IV. Date of annual meeting: Not included in mailing.

V. Profile of Board Members:
Michael Gold, President
Ruth Gold, Secretary

List of Nogales, Sonora directors included in mailing. List only includes present position. It has no indication of other businesses/companies that the directors could be involved in or associated with.

Collectron

The Advantages Of Manufacturing In Mexico Under The Maquiladora Program

More than 1,000 U.S. and foreign companies manufacture a wide range of sophisticated and simple products—from automobiles to zippers—in Mexico!

WHY?

They consistently report savings of up to $20,000, or more, per direct labor employee per year! And these companies also report that workmanship and productivity of their Mexican workers equals and often exceeds that of their U.S. counterparts!

And now labor rates in Mexico are lower than in many Far East nations. Cost-conscious Japanese manufacturers have, in fact, found that manufacturing in Mexico is the only way to beat the labor rates of their competitors located along the Pacific Rim.

An abundant supply of low cost, quality conscious workers are available in the industrial regions of northern Mexico. And here you are located at, or within a few hours of the U.S./Mexican border; quickly accessable to any point in the United States.

Unlike transoceanic offshore locations, Mexico's geographical proximity to the United States offers significant advantages:

- Transportation and communications are faster and cost less than far away offshore locations.
- Your travelling personnel and material-in-transit turn-around times can often be calculated in hours, not days – or weeks!
- On-site supervision from your home office can be frequent, and consistent.
- In some locations, your American personnel can live in the United States and work in Mexico.
- Mexico offers political stability not found in many volatile Far East and third world countries.

Advantages of the Mexican Maquiladora Program

The continued growth of this program—which began in 1965 and is now the country's second largest net generator of foreign exchange—holds top priority with the Mexican Federal Government. Advantages of the program are:

- Availability of low cost labor. During the past six years the fully fringed minimum wage in Mexico has been under $1.07 per hour.
- The 48-hour work week is standard.
- Duty free entry of all materials/components, tools, dies, molds, machinery and equipment that will be used in the production facility.
- Your maquiladora can be 100% American owned. You do not need a Mexican partner.
- Articles assembled, repaired, processed or even manufactured in Mexico may enter the United States under very favorable U.S. Customs tariff provisions.
- There is no limit to the number of American personnel that may staff a maquila operation in Mexico.

Skilled fingers speed intricate operations.

THE SHELTER PLAN IN SUMMARY

Five Simple Steps To Mexican Production and Savings . . .

Let's assume that you want to start your Mexican venture under the Maquila Access Services Shelter Plan. Here's how easy it really is:

1. Select a production and people-oriented member of your domestic staff as your plant manger in Mexico. Be sure he or she has a U.S. passport.
2. While your new plant manager is becoming acclimated in Mexico, your home plant has selected, packed and shipped all production equipment and raw materials needed to begin production to one of our warehouses located near the border.
3. Your plant manager—in his new home—is familiarizing himself with his production facilities, interviewing supervisory and lead personnel and meeting key Mexican and American businessmen and managers of other maquila plants operating in the area.
4. Production equipment and materials arrive and the Shelter Plan prepares transfer documents and arranges for its crossing to your Mexican production facility. You pay only freight and brokerage charges.
5. Your plant manager receives production material, supervises its setup and check out, starts training programs and begins production as quickly as possible.

AN INVITATION

If you want to enjoy the profitability of manufacturing in Mexico and if what we've said about Maquila Access Services . . .

- Shelter Plan
- Contract Manufacturing
- Turnkey Option

. . . makes sense to you, we encourage and welcome you to visit us!

See the colorful cities of Northern Mexico and visit a variety of production operations in action. We'll introduce you to the American managers of these plants. You ask them about operating in Mexico—about how the Shelter Plan has helped them—about the Mexican people and the quality of their work. They'll give you honest answers based on their first-hand experiences!

Please call or write any of our offices for more information and to arrange a visit—soon.


Pride of workmanship: hallmark of the dedicated Mexican employee.

Gus Rigoli, President

Al Rigoli, Director of Sales

Nikki Dodier, Sales Manager

COLLECTRON
OF ARIZONA, INC.

3000 Mariposa Road • Nogales, AZ 85621
(602) 287-6205/287-6695 • FAX (602) 287-5403

Maquila Access Services™ Offers Three Easy Ways To Manufacture In Mexico . . . Right Now!

We offer three trouble-free ways to start-up and continue manufacturing under the Mexican Maquiladora program while reducing your production costs up to 50%:

1. Contract manufacturing . . . The quickest way to test-prove dollar savings; Mexican labor skills

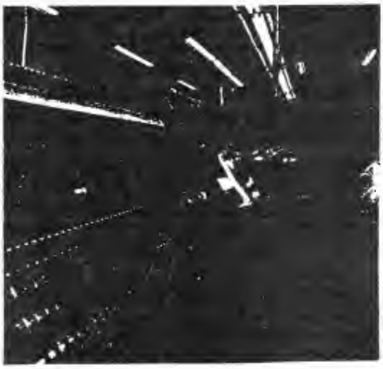
You may prefer, initially, to subcontract your product with an experienced American firm already operating a maquila in Mexico. Collectron's Maquila Access Services will put you in contact with reputable contract manufacturers in the states of Sonora, Baja California and Chihuahua.

▲ Modern facilities house maquilas.

2. Our turnkey option that provides a plant ready to operate

This complete service places your operation in a fully equipped, fully staffed plant in Mexico. It's built and equipped to your specifications and is ready to produce your product at maximum profitability when you move in.

▼ Complex machines are used in maquila plants.



3. MAQUILA ACCESS SERVICES™: The Pioneer Shelter Plan that offers the easiest, quickest way to start your Mexican operation

Maquila Access Services offers a unique, proven Shelter Plan program that simultaneously simplifies and maximizes the benefits of manufacturing in Mexico under the maquila program.

Numerous Fortune 500 companies including General Electric, ITT, United Technologies, Rockwell International, Samsonite, Xerox—more than 50 firms to date—have used our Shelter Plan to begin their operations in Mexico.

Maquila Access Services began in Nogales, Sonora, Mexico in 1969. Owned and operated by Collectron of Arizona, Inc., it was previously known as the Nogales Shelter Plan and is considered to be the most complete, most experienced and professionally operated program available along the U.S./Mexican border.

Under The Maquila Access Services™ Shelter Plan The Best Of Two Skilled Disciplines Are Integrated:

YOU PROVIDE
your new Mexican facility with:

- raw materials and components
- production equipment and tools
- on-site plant management . . .

. . . AND YOUR ABILITY to produce your product to your specifications

WE PROVIDE

- assistance in site selection/securing all Mexican permits
- start-up and on-going consultation
- direct labor tested, screened to your skill requirements
- help in selecting middle management and technical personnel
- a modern, well equipped production facility
- all normal operating utilities
- building maintenance and insurance
- janitorial services and supplies
- interface with Mexican officials
- U.S. and Mexican Customs administration
- personnel, accounting and payroll administration
- staging warehouse space in the U.S.

YOU PAY THE SHELTER PLAN

(in U.S. dollars) ONLY FOR: direct labor hours worked (48-hour week) times the Shelter Plan hourly rate.

Expenses not included in The Shelter Plan Rate

- direct labor overtime
- salaries of your American personnel
- wages of your Mexican indirect and salaried personnel
- severance pay
- leasehold improvements
- freight charges
- U.S. Customs duties
- U.S./Mexican bonds
- Customs brokerage charges
- insurance on your equipment and materials

▲ Shelter Plan's U.S. Customs administrators.

▼ U.S. Customs carefully inspects every shipment.

The Maquila Access Services™ Shelter Plan: How It Works:

We are a management/administrative/ operations group offering two decades of experience in organizing, starting-up and operating offshore plants in the Mexican States of Sonora and Baja California.

Your contract is with our American firm, Collectron. Our Mexican subsidiaries—our employees—manage and operate our Shelter Plans in various cities in Mexico . . . Mexicans working with, understanding Mexican culture, mores, laws and protocol.

Using the Shelter Plan, you can be in production in 90 days, or less! And you'll do it with limited financial risk and without legal or financial involvement in Mexico.

Briefly stated, the Shelter Plan totally eliminates or greatly simplifies a number of potential problems that arise when attempting to start-up and operate a business in a foreign country. For example, the Maquila Access Services Shelter Plan:

- Eliminates large capital outlays for a production facility.
- Eliminates the need for incorporating in Mexico.
- Eliminates long-term contractural commitments.
- Eliminates lengthy start-up schedules.

▲ Shelter Plan provides complete computer services

▲ Shelter Plan's Mexican Customs administrators.

▼ Shelter Plan carefully screens new employees

▼ New client "start-up team" co-ordination meeting

How The Maquila Access Services™ Shelter Plan Personally Puts You To Work In Mexico:

Shelter Plan Start-up Teams

When our initial evaluation has determined that your product can be produced cost effectively in Mexico and you decide to begin operations under the Shelter Plan, we assign three teams to help launch your new subsidiary.

One team goes to your home office. It familiarizes your administrative staff with the accounting and record keeping that the U.S. and Mexican governments will require for your new subsidiary. It also instructs your personnel in the strict documentation and packing requirements needed to ship your production equipment and materials to Mexico without delay.

A second team is interviewing and testing Mexican lead personnel for the skills you have requested. If you have requested Mexican administrative and technical personnel, this team will also be screening them for your approval.

This team also secures your Mexican operating permits as well as obtaining work permits for the Americans staffing your maquila.

Still another team is working closely with your staff preparing drawings and documentation for the plant facilitation.

Your Direct Labor Is Provided

Included in the Shelter Plan billing rate is the cost of your direct labor workforce and all payroll taxes and fringe benefits required by Mexican law.

"Direct Labor" includes line workers, material handlers, group leaders and inspectors. The Shelter Plan will hire the number of direct labor employees you specify and will provide additional direct labor as you grow.

We will also hire specially skilled indirect labor and staff to meet your administrative, supervisory and technical needs. You are billed separately for these indirect employees at cost.

Your Manufacturing Facility Is Provided

In addition to your direct labor, the Shelter Plan provides a modern manufacturing facility. This space may comprise part or all of a building depending on the number of employees you require. Normally we provide 150 square feet of space for each direct labor employee.

U.S. Warehouse Space Is Provided

Our Shelter Plan provides warehouses in the United States through which your shipments to and from Mexico can be staged.

U.S. Customs Administration Is Provided

Our Shelter Plan prepares all required U.S. Customs Service reports and documentation on your behalf. In addition, our in-house licensed customs broker will:

- Advise you of the most beneficial method of entering your merchandise into the United States to achieve the lowest legal duty exposure.
- Ensure that required country of origin markings on your product and/or packaging complies with current marking laws.
- Prepare and deliver, in your behalf, the required semi-annual cost submission reports.
- Determine if validated export licenses are required to export your machinery and materials to Mexico. If an export license is required, we prepare and submit the license application, in your behalf, to the Department of Commerce in Washington, D.C.
- Keep you informed of any changes or revisions in the Customs Regulations that could effect your importations.

Mexican Customs Administration Is Provided

Our Shelter Plan prepares all Mexican import/export documentation required for your maquila operation. We also maintain, in your behalf, all import/export controls required by the Mexican government.

Computer Services Are Provided

The Shelter Plan's Computer Services Department prepares payroll reports and U.S./Mexican customs invoicing for your Mexican operation. This department also generates a monthly report detailing your expenses incurred in Mexico.

On-Going Professional Business Consultation Is Provided

While you are operating under the Shelter Plan your on-site manager and his staff will be learning, with the aid of Shelter Plan experts, all of the nuances of doing business in Mexico: from Mexican labor laws to U.S./Mexican customs procedures. This continuous "on-the-job" training becomes invaluable should you, at some time in the future, elect to graduate from the Shelter Plan and establish your own Mexican corporation.

Memorandum Of Agreement

You sign a simple memorandum of agreement with [redacted] an American corporation. Its duration is for two years, renewable in 12-month increments. A clause allows you to terminate the agreement upon 90 days written notice. There are no cancellation charges.

Questions Frequently Asked:

ABOUT THE SHELTER PLAN

Q; How do I know that once set-up, my Mexican operation will be as effective as you claim?

A; Before we sign a contract with you, a Shelter Plan evaluation team conducts feasibility studies to determine not only your physical requirements, but the characteristics of the product you plan to assemble or manufacture in Mexico. We are primarily interested in labor content and customs duty classification.

Should any factor indicate that your move would fail to achieve the potential production and dollar savings claims we make, we would explain this to you and terminate our discussions.

Q; If my product and company are accepted after your feasibility study am I guaranteed the performance that you indicate others are achieving?

A; That would be impossible for us to do. We provide you with good facilities and capable employees, but production know-how and profitable management is your contribution to the success of the program.

Q; Is there a time limit to my operation under the Shelter Plan?

A; No. You may renew your contract any number of times and, of course, may expand your operation as you wish, even within a contract period.

Q; How and when am I billed?

A; You are invoiced weekly for the total number of direct labor hours worked multiplied by the Shelter Plan hourly rate.

Q; You say I can be in operation in as little as 60 days after I sign your contract. I can't set up a new plant that fast in the U.S.

A; That's true! We have people and facilities available at all times and select both on the basis of your specific requirements. But you must tell us exactly what you need, and when. Then you must ship down the tooling, benches, chairs, special equipment, raw materials, etc. and rarely can a large, or even medium sized company turn this around in 60 days. But it has happened with smaller operations and if you can do it—we can do it!

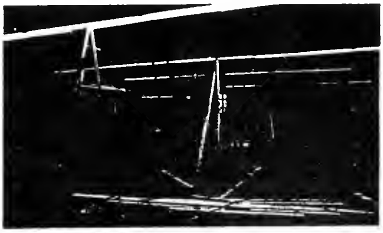
Q; Now wait! I ship my tooling, test gear, prints . . . into Mexico? Who is going to be thumbing through my confidential drawings? Who's in control?

A; Only your employees have access to your prints and will be using your equipment—and only to the extent that you permit or train them. Your local manager controls this just as he would in a U.S. plant. It's his responsibility, as is the quality of your production.

Q; When my plant is in operation how do my materials and production move in and out of Mexico?

A; The fee you pay the Shelter Plan includes use of our warehouses conveniently located in the U.S., but close to the border. Here, your shipments are "staged" for movement into or out of Mexico. You ship to and from our warehouses where we prepare all import/export customs documentation.

When your plant manager has a shipment ready to cross into the U.S. from your Mexican operation, he notifies us. We, in turn, notify our customs broker who prepares the import documentation based on the commercial invoice. You are billed at cost for the broker's fee. If not transported in your truck, the shipment goes to a Collectron warehouse in the U.S. and is reshipped.



Buildings are facilitated to your requirements.

Q; What plant facilities and work areas do you supply? What if I need additional space?

A; Basically we allow 150 sq. ft. of space for each direct labor employee you hire. Additional space is available at a negotiated rate. An office is provided for the plant manager as well as one telephone line and two extensions.

Our maintenance staff can provide most additional services including carpentry, plumbing, wiring and modifications. We provide quotations, and if approved, invoice you at cost for labor and materials.

If we can't handle your request for special power and wiring, unique plumbing or ducting, or any other project beyond our capabilities, we contact reputable Mexican contractors—usually those we have worked with previously—and obtain quotations. Again, we bill you at cost if you approve the job. Our Mexican company deals with another Mexican company. Your plant manager need not get involved. We will also provide any other production-related materials such as chairs, benches, tables, special lighting, etc. at cost. We need only your plant manager's signature.

EMPLOYEES

Q; You indicate that I could transfer just one person, a plant manager, to Mexico. How could he or she handle all the details, plus the language problem?

A; The size of your operation, the complexity of your product and the training programs you conduct for your Mexican supervisors and lead personnel determine how much initial help your plant manager may require. If you wish, we can provide bilingual, technically oriented personnel to assist your plant manager from start-up on.

Q; How do I locate and hire these supervisory/technical people?

A; We screen and test all prospective employees to fit your job descriptions. We then arrange interviews for candidates with your plant manager, who will make the final decision. We hire those individuals you select, pay their salaries and bill you at cost for their services.

Q; You refer to these people as "my" Mexican employees. I thought you hired and paid them!

A; We do. Technically they are employed by us, but they are assigned permanently to you. When we know what type of direct labor skills you need, we select the workers best suited for your requirements. To do this we interview and test all applicants. When sent to your plant manager we request that he or she, or a supervisor, also interview each prospective employee just as you would in the U.S. The employees accepted are then assigned to you and report daily for work as you direct.

Q; Do I get the same workers every day—or am I drawing from a labor pool?

A; The workers you have previously selected are assigned to you and report to your plant every day. Your plant manager approves their time cards weekly and we pay them, and invoice you, on the basis of these cards. If a worker is sick you have one less employee for that period. Since your workers are trained as part of a production team we cannot easily provide suitable substitutes.

A modern maquila in operation

Q; Can I terminate a Mexican employee who is not productive?

A; Certainly! You control who works for you. When you do terminate an employee, however, expect to pay severence that in Mexico is generally less than that incurred in the U.S., considering U.S. unemployment insurance.

Q; What's the minimum number of employees I have to hire from the Shelter Plan?

A; In our experience we find that less than 15 employees will not produce the profit leverage that makes a Mexican operation financially attractive.

Q; You say that I will have no legal involvement with the Mexican government. How can we operate there without a license or permit of some kind?

A; When you operate under our Shelter Plan you are merely hiring labor from us and using our facilities and services located in Mexico. Our subsidiaries are licensed Mexican corporations.

Q; Can the Mexican government expropriate my equipment or my operation in Mexico?

A; They could, but the maquila program has proved so beneficial to the Mexican economy and provides so many jobs in the northern states that such a move would be very unlikely. Also, U.S./Mexican government and economic relations have been traditionally compatible. And remember that more than 1,000 U.S. firms now operate in Mexico under the maquila program.

Q; Must my plant manager learn Spanish?

A; It's not necessary because most of the Mexican supervisory personnel are bilingual. We do suggest, however, that your manager learn to speak the language because it will make him or her a more efficient manager. We can provide qualified instructors for you at very reasonable costs.

Q; Do my American employees working in Mexico need U.S. passports, visas, what?

A; Only a passport is needed to get Mexican working papers. We prepare and submit to Mexican Immigration all documentation necessary to obtain work permits for the Americans that will staff your facility.

Q; Do I need a Mexican partner to operate under the maquila program?

A; No. Your plant can be 100% American owned.

Q; **I've heard rumors that I, or my plant manager may have to pay "extraneous" costs to certain Mexican officials to keep my operation running smoothly. Is this true?**

A; This practice has been successfully discouraged by us and the Maquiladora Association.

U.S./MEXICAN CUSTOMS DUTIES

Q; **What does the term "807" mentioned in relation to the maquila industry mean?**

A; [redacted]" is a U.S. tariff provision which allows manufacturers to assemble products abroad and, upon importation into the United States, pay U.S. Customs duties based on the assessed value of the imported article, less the cost of the American fabricated components.

To qualify under Item 807, the finished product must have been assembled abroad—in whole or in part—of American fabricated components which:

- were exported in a condition ready for assembly without further fabrication.
- have not lost their physical identity.
- have not been advanced in value nor improved in condition except by being assembled abroad and by operations incidental to the assembly process.

Q; **Is it true that I can send articles to Mexico to be repaired or altered, and when retured to the United States, pay U.S. Customs duties only on the value of the repair or alteration?**

A; Yes, under Tariff Provision 806.20 articles can be sent abroad for repair or alteration and when re-imported into the United States will be assessed U.S. Customs duties only on the cost of the repair/alteration and any materials added.

Q; **Is it true that certain products imported from Mexico can enter the United States duty-free?**

A; Yes. Approximately 2,000 articles that are manufactured in Mexico enter the U.S. duty-free under the Generalized System of Preferences (GSP). Our licensed in-house broker can tell you if your product is eligible for duty-free entry under GSP.

Q; **Does the imported article have to be marked "Product of Mexico?"**

A; The U.S. Customs regulations require that, unless specifically exempted by law, every article imported into the United States must be marked with the English name of the article's country of origin. Our in-house customs broker will review your marking requirements and help you determine if and how your imported articles should be marked.

Q; **What Mexican taxes will I have to pay?**

A; None! Our Shelter Plan pays all Mexican taxes.

Q; **What Mexican fees and customs duties must I pay to import my equipment and materials into Mexico under the Maquiladora Program?**

A; None! Customs duties and fees are not assessed on the materials/components, tools, machinery and equipment used in your Mexican production facility.

Q; **Can I sell products I manufacture in Mexico to the Mexican market?**

A; Yes, under special circumstances, a maquila can sell up to 20% of its production in Mexico.

Harmonized Tarriff Schedules, HTS, went into effect in 1989. Item 807 now 9802.00.80 HTS; Item 806.20 now 9802.00.40 HTS.

ESTABLISHING A MEXICAN SUBSIDIARY

Q; **If operating in Mexico is as profitable and the quality of product manufactured is as good as you claim, what's my next step—assuming that I want to stay and grow?**

A; You have two choices: 1) you many continue in the Shelter Plan, expanding your operation as fast as you wish. 2) you may elect to start a subsidiary operation incorporated under the laws of the Republic of Mexico. In this case, you will lease your own production facility and arrange for its maintenance and utilities. You will hire your own employees and set up your own payroll, personnel and administrative departments. You may "hire away" the employees you acquired and trained while operating under our Shelter Plan without penalty or prejudice. With your own corporation, of course, your management will be responsible for all permits, customs activities, contracts and contact with local bankers, vendors and government officials in Mexico.

Q; **Would my operation stay in the same building I am using under the Shelter Plan?**

A; That depends on several factors: the size of your current Shelter Plan operation, where it is located, and your long range expansion plans.

Q; **If, when I make a decision to set up a subsidiary operation, what assistance is available to my firm and my plant manager?**

A; Our Shelter Plan personnel will help you arrange for the physical move and will make sure that you have secured all necessary permits, licenses and bonds. They will arrange for an orderly transfer of all records and personnel and assist in other areas as needed.

NOGALES, SONORA

Maquila Access Services: Directory of Offices, Telephone Numbers and Personnel

The Nogales Shelter Plan

Nogales, Arizona Office
3000 Mariposa Road
Nogales, Arizona 85621
Telephone: (602) 287-6205, 287-6695
Fax: (602) 287-5403

Gus Rigoli	General Manager
John Paul Vybomy	Director of U.S. Customs (Importations/Exportations)
Albert Rigoli	Director of Sales
Nikki Dodier	Sales Manager
Eddie Bayze	Customs Audit Coordinator
Marco Antonio Espinosa	Ass't Director of U.S. Customs
Bill Culton	Warehouse Manager
BeeBee Sainz	Administrative Assistant

Sonitronics, S.A. de C.V.
Nogales, Sonora, Mexico
Telephone: (011-52-631) 2-4380
2-3366
2-7977
2-7700

Maria Elena Gallego	Director of Operations
William Wallace	Director of Manufacturing
Zoila Lerma	Personnel Plant Manager
Rafael Mosqueda	Personnel Administrative Manager
Emilio Campos	Operations Coordinator
Susana de la Torre	Operations Coordinator
Rosalia Romero	Operations Coordinator
Jorge Pedroza	Cost Analyst
Lourdes Lerma	Human Resource Training
Victor Angulo	Personnel Psychologist
Agustin Arriola	Manager-Import/Export
Lydia Pintado	Manager-Mexican Permits
Miguel Angel Ortega	Payroll Manager
Raul Aguirre	Controller
Guillermo Vega	Accounts Receivable Manager
Agustin Carrillo	Maintenance Project Consultant
Jose Tabanico	Supervisor-Plant Security
Marcella Schacher	Video Production

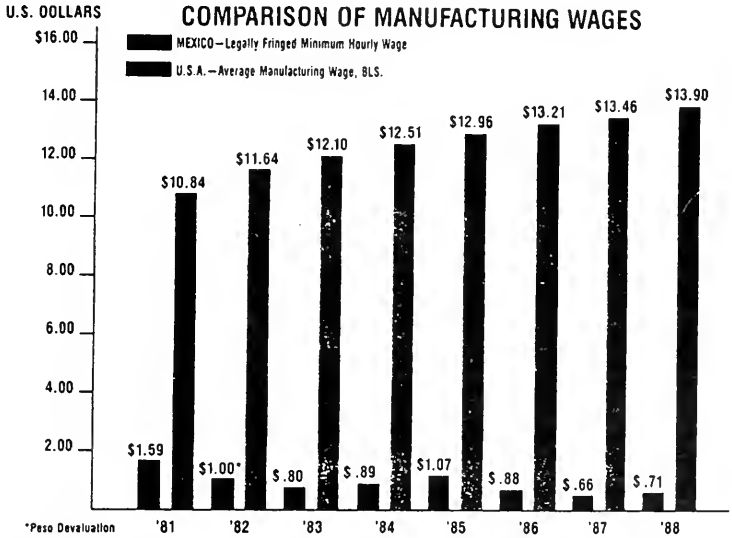
See reverse side for Nogales, Sonora Profile

1/90

COMPARISON OF MANUFACTURING WAGES

COLLECTRON OF ARIZONA INC

Mexico and United States



Maquiladora Wages[1] vs. Average Manufacturing Wages In Other Countries[2]

Stated w/fringe in US$ per hour worked

	1981	1982	1983	1984	1985	1986	1987	1988
Mexico/ maquila[1]	1.59	1.00[3]	.80	.89	1.07	.88	.66	.71
United States	10.84	11.64	12.10	12.51	12.96	13.21	13.46	13.90
Hong Kong	1.55	1.67	1.52	1.60	1.75	1.89	2.12	2.43
Japan	6.18	5.70	6.13	6.34	6.47	9.47	11.14	13.14
Korea	1.08	1.16	1.23	1.32	1.36	1.46	1.79	2.46
Taiwan	1.18	1.22	1.27	1.48	1.46	1.67	2.19	2.71
Singapore	1.79	1.96	2.21	2.46	2.47	2.23	2.31	2.67

[1]Mexican minimum wage with legal fringes
[2]US Dept. of Labor, Bureau of Labor Statistics, 8/89
[3]Beginning of Peso Devaluation

1·90

COLLECTRON
OF ARIZONA, INC

MAQUILA ACCESS SERVICES™

[redacted]

[redacted]

Dear David:

I am enclosing our information packet which gives you a little information on our company. We are primarily a shelter operator that helps start up companies and provide administrative support for them to assemble or manufacture under the Mexican maquila program.

We have successfully started over 60 U.S. companies in five Mexican cities in which we operate. These include [redacted]

If you are interested in pursuing this further, I recommend that you come and visit us here in Nogales so that we might discuss the program in detail.

Sincerely,

Albert Rigoli
Director of Sales

AR:bs

ENC:

3000 Mariposa Road • Nogales, AZ 85621 • (602) 287-6205 / 287-6695

COLLECTRON
OF ARIZONA, INC.

MAQUILA ACCESS SERVICES™

May 01, 1990

Mr. David Sapp
1010 Washington Street, #2R
Horoken, NJ 07030

Dear David:

I am enclosing our information packet which gives you a little information on our company. We are primarily [redacted]

We have successfully started over 60 U.S. companies in five Mexican cities in which we operate. These include McCulloch Corporation which assembles gas operated chain saws in a 60,000 square foot plant employing 400 workers.

If you are interested in pursuing this further, I recommend that you come and visit us here in Nogales so that we might discuss the program in detail.

Sincerely,

Albert Rigoli
Director of Sales

AR:bs

ENC:

3000 Mariposa Road • Nogales, AZ 85621 • (602) 287-6205 / 287-6695

SAMPLES OF LETTERS PROMOTING
MEXICO'S MAQUILADORA PROGRAM

Provided to the Subcommittee by the AFL-CIO.

FINSA
Grupo Argüelles

September 17, 1991

Mr. Edward F. Crawford
President
Kay Home Products Inc.
1971 W. 85th St.
Cleveland, Ohio 44102

Dear Mr. Crawford:

There is great opportunity for your company to reduce operating costs by taking advantage of Mexico's Maquiladora Program. As a world class manufacturer you have the advantage of access to the lowest cost labor market in North America! Mexico!

Consider that the fully fringed labor cost along the border in Northern Mexico averages $ 1.25 per hour. Just compare that to your real cost of wages. This equates to almost $20,000 in savings per employee per year.

We think that this is significant enough for your consideration!

FINSA Grupo Arguelles is a private Mexican development firm specializing in all aspects of this program, including building availability, site selection, construction and raw material and component sourcing. If you prefer less involvement, but feel you would benefit from some aspect of this program, FINSA's affiliate NOVA/LINK Management Concepts can offer you its start up or shelter program services which provide hands on management of your product line or complete operation at a very reasonable cost.

If you are interested in knowing more about Mexico's maquila program, we invite you to come and visit us on the Texas/Mexico border or we will be happy to schedule a visit with you if you prefer. Our services are offered in Matamoros (Brownsville), Reynosa (McAllen), Nuevo Laredo (Laredo), Monterrey, Cd. Victoria and Mexico City.

Please call Hector J. Romeu, Jr. at 1-800-324-3467. Let us help you become more competitive!

Sincerely,
FINSA Grupo Arguelles

Hector J. Romeu, Jr.

Hector J. Romeu, Jr.
Marketing Director

MEXICO CITY OFFICE | FINSA MATAMOROS | FINSA NUEVO LAREDO | FINSA REYNOSA | FINSA MONTERREY | NEW YORK AREA OFFICE | U.S. OFFICE

PARQUE INDUSTRIAL JUAREZ

APARTADO POSTAL 2343 • TELEFONO (16) 13-5252 • CD. JUAREZ, CHIH., 32000 MEXICO
P.O. BOX 826 • EL PASO, TEXAS 79945
TO DIRECT DIAL FROM THE U.S. 011-52-161 / 6-2323 OR 6-1000 FAX: 3-6942

December 13, 1991

DEAR MR. ROSS:

Several automotive parts manufacturers and rebuilders have achieved substantial cost reductions by having the labor-intensive portions of the production process done in Mexico, where the average manufacturing/assembly wage rate, including all fringe benefits, is $1.75/per hour.

Please refer to the accompanying list that identifies 74 such companies.

You can significantly cut your production costs and increase your profits by utilizing Mexico's Maquila program.

In Juarez, Mexico (just across from El Paso, Texas) more than 300 U.S. companies are profiting from this production sharing program because there are several advantages to operating in Mexico:

1) A large work force, at very competitive labor rates.
2) The ownership and control can be 100% non-Mexican.
3) Duty free import of equipment and materials into Mexico.
4) No Mexican export duty on the products.
5) U.S. import duty only on non-U.S. components and the value added in Mexico.
6) Proximity to U.S. headquarters.
7) Proximity to the U.S. market.
8) Proximity to U.S. suppliers.
9) For Mexican income tax purposes, your Mexican company can operate as a cost center, allowing you to reflect your profit on the U.S. side of the border.
10) Under the upcoming Free Trade Agreement, you will be allowed to sell your production into the 80-million-consumer Mexican market.

At lower employment levels, you will be well-advised to also investigate the "shelter" and "subcontract" alternatives that we can offer you through our affiliate company that will assemble your product for you. You take advantage of faster start-up and lower investment levels but still get the advantage of lower labor costs (typically $4-5.00 per hour, including all employee fringes, land, the building, utilities and all factory operating overhead).

For the past 15 years we have operated as a free-of-charge informational center for legal, accounting, production, personnel, construction and real estate matters related to the MAQUILA program.

I invite you to fill out and mail the enclosed business reply card.

We welcome the opportunity to explain this program to you in greater depth and breadth and answer any questions you may have, assuring you of strict confidentiality.

Sincerely,

TRES HENDRIX
Marketing Director

TH:lo

PARQUES INDUSTRIALES MEXICANOS, S. A. DE C. V.

naiop National Association of Industrial and Office Parks

KENNAMETAL INC. - Radiators

TRINOVA CORP. - Automotive windshields

IMPERIAL ENTERPRISES - Automotive bumpers and wheel rims

MR. GASKET CO. - Exhaust headers and mufflers

LIFE-ROLLWAY - Clutches, disc plates, automotive brakes

EMPIRE SALES - Steel voltage boxes for trucks

PULIDORA DE LOS ANGELES - Stamping and polishing of wheel parts

EMCO INC. - Bumper and wheel rim polishing

METSA (TECATE) - Automotive armatures

SUPERIOR INDUSTRIES - Wheel polishing

HOOKER INDUSTRIES - Exhaust systems, mufflers

F.T.C. WIPERS - Windshield wipers

CONTINENTAL ENTERPRISES - Bumpers and protective devices

ELECTRO CONVERSIONS -Cleaning and repair of generators

ALL STAR CO. - Rebuilding of starters

MERCURY INTERNATIONAL - Rim chroming

CMP ELECTRONICS - Car brake systems

CALIFORNIA BUFF CO. - Autoparts polishing, wheel fabrication

S.M. INTERNATIONAL - Wheel rim polishing

WESTERN WHEEL CORP. - Wheel polishing

EMERSON ELECTRIC - Valves

MCD CORP. - Automotive wire harnesses

UNITED TECHNOLOGIES - Automotive wire harnesses

DAY INTERNATIONAL - Automotive seat trim

FEDERAL MOGUL - Electromechanical/solid state auto parts

CUMMINS ENGINE CO. - Diesel engine rebuilding

GENERAL INSTRUMENT CORP. - Transportation electronics

ELECTRO WIRE PRODUCTS - Wire harnesses

CHRYSLER CORP. - Wire harnesses, seat trim and automotive electronics

YAZAKI CORP. - Wire harnesses

PHILIPS N.V. - Sealed beam headlamps

TRICO PRODUCTS - Windshield wipers

ALCOA FUJIKURA - Automotive wire harnesses

REMTEX MANUFACTURING - Air brake systems components

DOUGLAS AND LOMASON - Seat covers

IRVIN INDUSTRIES - Automotive seat belts

ALLIED - BENDIX - Automotive seat belts

BRIDGESTONE CORP. - Tire testing

LITTLEFUSE - Automotive parts, electronics, alarms

RASSINI INTERNATIONAL - leaf and coil springs

COOPER TIRE AND RUBBER - Wheel rims and automotive wire harnesses

ECHLIN - Wire harnesses

PLUMLEY COMPANIES - Automotive parts

SPECIALTY MODES (SPAIN) - Disc brake pads

MAQUIMETAL - Automotive jack parts

V.W. - Automotive transmission parts

BETA MANUFACTURING - Automotive relays, switches and cables

CRONAN MANUFACTURING - Mechanisms for automotive starters

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CRS Report for Congress

Plant Closings, Mass Layoffs, and Worker Dislocations: Data Issues

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March 29, 1993

CRS

Congressional Research Service • The Library of Congress

PLANT CLOSINGS, MASS LAYOFFS, AND WORKER DISLOCATIONS: DATA ISSUES

SUMMARY

For at least 15 years Members of Congress have continued to ask: *How many U.S. manufacturing plants have closed?* For at least 15 years they have continued to ask: *How many U.S. manufacturing plants have relocated abroad, and where have they gone?* For at least 15 years the answer has been: For the most part, those questions can't be answered, based on Government data.

Over the years, Congress has undertaken two legislative efforts to learn the answers to these questions. First, it mandated collection and publication of plant closing data under the *Job Training Partnership Act* of 1982. Six years later, it mandated notification of State dislocated worker units created under the 1982 Act, when a major plant closing (or other layoff event) was scheduled to occur. This second mandate was part of the *Worker Adjustment and Retraining Notification Act* (WARN) of 1988. Because these two laws are thus linked together, the potential exists for data collected under the WARN Act to be fed into or coordinated with the data system established under the Job Training Partnership Act, to avoid duplication or to act as a check for consistency.

During the continuing congressional debates on the North American Free Trade Agreement, plant closing questions have arisen again, but in a more specific form: *How many plants are moving to Mexico? What industries and what States are the plants from? How many U.S. workers are losing their jobs as a result?*

In an attempt to obtain answers to these questions, the Senate Governmental Affairs Committee, Subcommittee on Oversight of Government Management asked the Secretaries of Labor and Commerce to report on all data systems that provide information on plant closings, plant relocations, layoffs, worker dislocations, and export-related job creations.

Based upon a CRS analysis of the agencies' responses, which include data sources beyond the two mentioned above, it appears that still, after two legislative attempts to mandate collection of these data, the Government publishes no counts of U.S. plant closings, and almost no information on plant relocations. Options for strengthening the data systems include addressing three main weaknesses: inadequate data program design, a plant closing definition that misses its mark, and publication of partial instead of complete survey results.

PLANT CLOSINGS, MASS LAYOFFS, AND WORKER DISLOCATIONS: DATA ISSUES

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PLANT CLOSINGS, MASS LAYOFFS, AND WORKER DISLOCATIONS: DATA ISSUES

In the past two decades, the nature of U.S. industry has changed. Pressured by domestic and international competition, businesses have exhibited a new kind of dynamism and mobility. Aiming to improve competitiveness, businesses automate. They tighten up, downsize, or decentralize operations. They open, close, expand, consolidate, or relocate plants.

An important side effect from all this activity is a trail of American workers dislocated from their jobs by changing production processes and shifting production locations. Yet, comprehensive data are not available to show overall and by industry, how many plants close permanently in the United States each year; how many plants relocate to another State, another country, or another region (i.e., to Asia/Pacific or to Mexico); how many plants automate or downsize production processes; and how many workers lose their jobs as a result of each of these changes.

WHY DATA ARE NEEDED

Congressional policy decisions, especially those that may impact U.S. jobs, could benefit from data tracking this dynamic industrial movement. Such data would help policymakers focus on trends that might be exacerbated, assisted, or targeted by specific trade, training, job creation, or education policy decisions. The consequences from lack of data are that certain policy decisions are made, to a great extent, "in the dark."

The implications of this lack of data are evident in the debate on the North American Free Trade Agreement (NAFTA). According to recent surveys of the Departments of Labor and Commerce, no comprehensive Federal data are regularly published on how many plants have relocated to Mexico, where the plants have relocated from, what industries they are in, and how many U.S. jobs have been lost as a result. Nor are there data on how many U.S. jobs have been crowded out by Mexican imports. What little data that do exist are often sketchy, and not available in press releases or other printed publications.

No complete Government data base *tracks* business decisions *pre*-NAFTA. Therefore, data on business relocations to Mexico as a result of Mexico's maquiladora program have been hard to come by. Without full data on current relocation trends, it becomes even more difficult to estimate with any reliability the potential for additional plants moving to Mexico (and the consequences of such dislocation) *after* the added incentive of NAFTA.

CONGRESSIONAL EFFORTS TO ESTABLISH A DATA BASE

Since the 1970s, various Members of Congress have expressed urgency in obtaining information about mass layoffs, plant closings and plant relocations to areas either within or outside the United States, and the resulting loss of jobs. The objective in obtaining this information is to learn more about the perceived erosion of the U.S. manufacturing sector and the alleged export of U.S. jobs.

To this end, Congress mandated the establishment of two systems in the Department of Labor (DOL). One system was a labor market information program for collecting and publishing each year, data on permanent layoffs and plant closings. This system was mandated by the *Job Training Partnership Act* (JTPA) of 1982 (P.L. 97-300). The *Mass Layoff and Plant Closing Survey* (MLS) was undertaken by the Department of Labor in response to this mandate. The other system stemmed from congressional passage of the *Worker Adjustment and Retraining Notification Act* (WARN) in 1988. In this law, Congress required that employers notify three bodies -- workers, State dislocated worker units created under JTPA, and local governments -- of impending major mass layoffs, plant closings, or plant relocations.

Yet, the statistical systems produced by the DOL in response to the congressional mandate to track plant closing, plant relocation, and worker displacement, appear to miss the mark to varying degrees in meeting these objectives. The incompleteness of the resulting data stems from three main causes: program design that is inadequate to meet congressional objectives, a definition of *plant closing* that does not coincide with the generally accepted definition, and publication of partial instead of complete data survey results.

In order to document and examine the issue of data adequacies and inadequacies, this report aims: first, to identify the extent to which certain statistical programs of the DOL and the Department of Commerce (DOC) meet or fall short of providing needed information on mass layoffs, plant closings, worker dislocations and the counterbalancing effects of export-related job creation; and second, to offer options for changes to improve the usefulness to Congress of the data being published.

CONGRESSIONAL SURVEY

In December of 1992, letters were sent out by the Subcommittee on Oversight of Government Management of the Senate Committee on Governmental Affairs to the Secretaries of Labor and Commerce. The purpose of these letters was to obtain documentation on the availability of data tracking plant closings, mass layoffs, worker dislocations, and counterbalancing export-related job creation. The motivation behind the request, as stated in the respective letters, was to obtain data for the NAFTA debate.

Each agency was asked to identify data sources that are "readily available and in an organized form" tracking the data requested. Each agency was *further* asked to indicate whether the data were *available* over each of the last 10 years, by number of workers, by industry and occupation, by geographic area, and by reasons for various closing and layoff events. Agencies were asked for information on the availability of data for eight specific layoff events or subject areas. The first four focus on *establishment* events and workers affected. The remaining four focus more exclusively on *workers* or *jobs* affected. The eight layoff events are:

1. Plant closures in the United States;
2. Plant relocations to foreign countries;[1]
3. Plant downsizings;
4. Layoffs;
5. Dislocated or displaced (the words are interchangeable here) workers;
6. Dislocated or displaced workers receiving Trade Adjustment Assistance (TAA);
7. Jobs lost in the United States from import penetration; and
8. Export-related jobs created.

In addition, the DOL was specifically asked about the Mass Layoff and Plant Closing Survey and the Worker Adjustment and Retraining Notification (WARN) data program. Finally, DOL was also asked to identify steps it could take to collect and make the requested information which is currently unpublished, available to the public in the future, together with the costs and benefits of taking such steps.

RESPONSES BY THE DEPARTMENTS OF LABOR AND COMMERCE

Both agencies responded to the congressional request in the first half of January 1993, with memos and data sources. The DOC's role, concerned mainly with *commerce*, is really secondary to the DOL's role, concerned mainly with *labor* in providing plant closing, plant relocation, and mass layoff data.

In particular, the DOL, submitted data on *some* of the layoff events. For those layoff events for which it did not *publish* the requested data, it failed to report whether some of the data might be available *unpublished* in its data bases. Nor did the DOL response identify steps that the agency could take to collect and make such data available to the public in the future.

Table 1 on page 11, prepared by CRS, summarizes the extent to which the sources offered by DOL and DOC provide data requested by the committee. The analysis which follows discusses in greater detail the ability and inability of the

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[1] Information on plant relocations to other parts of the United States is also an important aspect of the plant relocation phenomenon, but was not specifically requested in the letters.

data sources to provide answers to the questions asked. A succeeding section reviews some options for making the surveys more useful in providing policymakers with answers to the questions here enumerated.

DATA SOURCES

The DOL response was somewhat limited in providing comprehensive responses to the subcommittee, both in terms of providing complete reports and in terms of providing detailed information on material in the data bases that is not reflected in published documents. Because of this, the analysis below draws on some additional information from CRS files and previous CRS research on the data bases. Additional information to answer the subcommittee's questions may exist in the data bases, beyond that reported here.

MASS LAYOFF AND PLANT CLOSING SURVEY

As mentioned, the Mass Layoff and Plant Closing Survey (MLS) is the Department of Labor's response to the congressional mandate in section 462 of the Job Training Partnership Act (JTPA) that the Secretary of Labor "shall develop and maintain statistical data relating to permanent lay-offs and plant closings." Specifically required by JTPA was that the Secretary publish an annual report including: 1) the number of permanent plant closings; 2) the number of workers displaced; 3) the location of the affected facilities; and 4) the types of industries involved.

The MLS program obtains reports on layoffs involving at least 50 workers and lasting more than 30 days. Information on mass layoffs is gathered from each State's unemployment insurance data base. The State agencies then contact these establishments by telephone for additional information.[2]

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[2] U.S. Department of Labor, Bureau of Labor Statistics. *Mass Layoffs in 1990*. February 1992. p. 1.

At present the MLS survey has been suspended. Collection of the data for the program by States ended in November of 1992.[3]

What follows is a discussion of the adequacy of the MLS to meet the data needs of policymakers as iterated above.

a) Plant Closings

Despite the specificity of the JTPA requirement, that the Secretary of Labor publish an annual report including the number of permanent plant closings, the MLS falls short of the mandate in two ways.

First, it fails to count and tabulate many of what are generally considered to be plant closings, even though they may involve 50 or more workers. This is because DOL defines permanent plant closings to include only those closings which represent the final termination of the entire physical plant. According to the DOL letter submitted to the committee, "if parts of the establishment -- a branch or department -- were closing, the establishment was considered to be staying open." Thus, the way DOL counts plant closings, if a General Motors (GM) assembly plant closes in Ypsilanti, Michigan, this would not be counted as a plant closing if an accounting or other office physically associated with the plant remains open. Thus, the DOL counting of plant closings may significantly underreport the actual number of plant closings occurring in the United States.

Second, the MLS fails to report on, or even to mention plant closings in any of its published tables, even though tabulation of plant closings was *the* stated requirement in the congressional mandate included in the JTPA. Only one sentence in the lengthy annual reports (generally over 100 pages each) even addresses the issue of plant closings. In the report issued in 1992, for example, that sentence reads (p. 2): "Closure of the establishments results in about 14 percent of the layoff events." In 1988 the term "plant closing" was dropped from the title of the MLS document, and the initial title, *Report on Mass Layoffs and Plant Closings*, was simplified and shortened to *Mass Layoffs*.

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[3] For the FY 1992, no line item funding the program was included in the President's budget. Appropriations committees subsequently instructed the DOL to fund the program from money appropriated under the Job Training Partnership Act, and amended JTPA to reserve $6 million for the MLS program, from the amounts appropriated under Title IV of the JTPA. The Secretary of Labor agreed to fund the program in FY 1992, as directed. She subsequently notified Congress that she did *not* intend to be bound by report language for FY 1993 if she were directed to use JTPA national account money for the MLS again (which she was). What will happen to the MLS under the new Administration is unclear. (Information for this paragraph was taken from letters exchanged between the Secretary of Labor and chairmen of several committees, and from discussions with the DOL office producing the MLS survey.)

b) Plant Relocations

Even though the MLS reports contain no data on plant closings except for the one summary sentence discussed above, they do include line item counts for *relocation* events -- both domestic and overseas, and total number of workers affected for the country as a whole, as well as by State. The MLS does not include any indication of *industries* represented by the plant relocations, geographic areas from which the relocations are sourced, or to which the relocations are targeted.

The DOL letter responding to the subcommittee inquiry notes that in 1991 information was obtained from employers specifying the *country* to which the establishment was relocating, when out-of-country moves were reported. DOL also included two supplemental unpublished sheets which reported a number of relocations to Mexico for 1991 and the first half of 1992, and the number of workers affected.[4] The sheets did not identify industries represented in the relocation to Mexico, although they reported on overseas relocation for two industries without regard to target country.[5]

The DOL did not give any indication of industry or geographic identity for any relocations within the United States. It is possible that such data does not exist in the data base. However, it would be useful to track relocation within the United States.

c) Downsizing

The DOL letter responding to the subcommittee inquiry indicates that data on actual downsizing of corporations are not available. However, DOL may have in its data base, such data *by companies*, since it includes a line item (tallying events and workers) on one aspect of initial downsizing -- *automation*. DOL's letter notes that the agency "cannot provide information on *specific companies* that have relocated or downsized their workforces" because data are collected under a pledge of confidentiality to respondents. However, perhaps data in the database at the company level could be aggregated to the industry level to protect the privacy of individual companies.

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[4] Six relocations were reported for 1991, dislocating 810 workers, and 5 for the first half of 1992, dislocating 1,270 workers.

[5] These industries are: rubber/plastics, with 3 layoff events for 1991, dislocating 443 workers; and electrical and electronic equipment, with 4 layoff events in 1991, dislocating 603 workers.

d) Layoffs

While the MLS report provides only sketchy results for *plant closings*, it provides ***detailed*** aggregate information on the number of *layoff events* and the number of workers affected: The survey provides *layoff data* by industry (but not by occupation) by State, and by reasons for the event.

There are two weaknesses in the reported data on layoff events. First, the data do not provide *geographic* or *industry* detail on the *reason* for the separation or layoff. Temporary layoff events could be grouped together and data could be published by industry and by region. Such data may be available in the data base, although the DOL letter responding to the committee inquiry gave no indication on this one way or the other.

Second, MLS data from early years are not comparable with MLS data from more recent years because between 1986 and 1992, the survey coverage expanded from its original 26 States to 46 States plus the District of Columbia. California is a major State not included.

e) Jobs Lost from Import Penetration

The Trade Adjustment Assistance (TAA) data (discussed below) reflect the number of workers for whom imports *"contributed importantly"* to their job loss. Data on the number of workers for whom imports *contributed somewhat* to their unemployment is harder to find.

The DOL letter responding to the subcommittee inquiry reports that both conceptually and empirically the measurement of job loss due to import demand is difficult, and that at present no official data series fully identifies the extent of such activity. The MLS survey does, however, contain a line item called "import competition" (noting the number of layoff events and related worker separations). This number purports to reflect jobs lost from import penetration. What is notable about these figures is that they show fewer workers dislocated from import penetration than do TAA data.[6]

The reason for this discrepancy is unclear. One possibility is the fact that the MLS data only included 26 States in 1987, and a larger but still incomplete list of 45 States in 1990. Another possibility is that the MLS survey counts jobs lost to import penetration only when this is the single most important reason for dislocation, whereas the TAA data could reflect import competition as one of several important reasons for dislocation.

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[6] For 1987, the MLS survey reports 16 percent as many workers dislocated from import competition as the TAA figures show; for 1990, the MLS survey reports 48 percent as many workers.

WORKER ADJUSTMENT AND RETRAINING NOTIFICATION ACT (WARN)

The WARN Act of 1988 (P.L. 100-379) requires that all businesses with 100 or more workers give 60 days advance notice to workers, local governments, and State dislocated worker units before closing a plant or laying off a substantial number of workers (according to a formula in the law). Data on notifications under the WARN system are collected by each State, and summary data are forwarded to the DOL.

The summary data provided to the committee by DOL include only total numbers of WARN notices for the United States. The weakness of the WARN data transmitted by DOL is that they are not separated out from other JTPA data. There are no data reported for the number of workers affected by WARN notices, for type of layoff event (permanent or temporary), or for industries or geographic areas affected. Yet, according to DOL, a covered employer contemplating a qualifying plant closing or layoff event must report a minimum of information to the State dislocated worker unit including the name and address of the employment site, the name and telephone number of a company official, and the number of workers affected. The employer must keep additional detailed information, including the nature of the layoff event (temporary, permanent, and if permanent, whether it is a plant closing, etc.) readily available.

The WARN system is certainly a potential source of data on closings, layoffs, and relocations among plants with 100 or more workers (thus potentially capturing data on layoff, closing, and relocation activities of multinational corporations).[7] If the WARN data reporting system were structured to capitalize on this potential, it could be used either as a double check on the data received under the MLS system or as a funnel to feed data into the MLS system.

DISPLACED WORKER SURVEY

The displaced worker survey, is conducted every other year as a survey of households (as opposed to establishments.) It is a joint product of the DOC and the DOL. The DOC, as part of its Current Population Survey, inquires door-to-door whether any member of the household was displaced from his or her job at any time during the past 5 years because of a plant closure or relocation, abolition of shift, or slack work. If the answer is "yes," a series of questions then are asked. The DOC submits the results of the survey to the DOL, which tabulates and publishes them in the report *Displaced Workers*.

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[7] Businesses of 100 or more workers constitute about 2 percent of all businesses in the United States, but employ about 45 percent of all private workers, according to the U.S. Department of Commerce publication *County Business Patterns*, 1989.

A *survey* such as the displaced worker survey, is not as precise a sampling tool as an actual count of workers and events, as reflected in the MLS and the WARN data systems. Errors in surveys can result from self-reporting as well as from nonsampling -- i.e., failure to represent all units within the sample. They can also result from sampling variability -- that is, variations that occur by chance because a sample rather than an entire population is surveyed.

a) Plant Closing Data

The displaced worker survey is notable in that it is the only Government survey to report, *by industry*, the number of workers who report themselves to be specifically dislocated by plant closings or plant relocations.

The main weaknesses of the survey are three: First, it reports on the number of *workers* displaced from plant closure, not on the number of *establishments* or plants closing. This is only a weakness of the survey from the standpoint of the policymaker wanting a count of plant closings in the United States. By its nature as a household survey, the displaced worker survey was never intended to tally establishments.

Second, each every-other-year survey represents a *long-range* snapshot in *time*, collecting aggregate sampling data on all dislocations that have occurred within the previous *five years*. Thus, the survey produces no data on year-by-year dislocations.

Third, in its *Displaced Workers* report, the DOL *publishes* detailed data only on workers employed *three or more years with the employer*. Thus, published results of this survey ignore more than half the displaced worker population covered by the survey.[8] Although DOL did not mention this in any of the materials it submitted to the committee, it does have data for all dislocated workers regardless of tenure, in its data base, and does make this data available to requesters who know to ask for it.

b) Displaced Workers

The *Displaced Workers* report includes in tables, considerable detail about displaced workers: their numbers, the industries and occupations from which they were dislocated, their geographic distribution, and even the reasons for dislocation.

The weakness of the report in giving a picture of displaced workers echoes the weaknesses of the report in measuring plant closings, iterated in reasons two and three immediately above: it does not afford year-by-year counts of

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[8] This figure was derived from comparing the number of displaced workers with three years tenure with the number of displaced workers regardless of tenure. This latter figure is included in unpublished data.

displaced workers. In addition, it only describes less than half the total universe of displaced workers covered in the survey.

TRADE ADJUSTMENT ASSISTANCE PROGRAM

Trade Adjustment Assistance program data (submitted by DOL for the years 1975-1990) reflect dislocated workers receiving trade adjustment assistance benefits. These are workers for whom a determination was made, as required by the Trade Act of 1974 (P.L. 93-618) that imports "*contributed importantly*" to their dislocation. According to the DOL letter responding to the committee inquiry, data are also available by State and by Standard Industrial Classification code (i.e., by industry). This data source is reasonably complete as it stands.[9]

EXPORT-RELATED JOBS

Several publications were submitted by DOC and DOL in response to a request for information on export-related jobs. The publication *Trade and Employment* is the product of a joint effort by the DOC and the DOL. This publication is of limited value for measuring export-related jobs because it measures not jobs created by exports, but rather total jobs in industries that had at least 20 percent of their 1987 employment levels tied to direct or indirect manufactured exports.[10] As the DOL letter points out, the change in employment data primarily reflect "domestic consumption trends," rather than export-related jobs.

The DOC publication *U.S. Jobs Supported by Merchandise Exports* does measure export-related jobs. The data results come from a University of Maryland input-output model, based in part on the DOC Bureau of Economic Analysis's input-output tables. The report includes for the years 1983-1990, estimates on both *direct* and *indirect employment requirements* for shipments of merchandise exports from all sectors of the economy (agriculture, other goods-producing, and service-producing sectors). A companion publication, *U.S. Jobs Supported by Merchandise Exports to Mexico*, provides detailed information on jobs, by industry, supported by exports to Mexico. Neither publication includes data on jobs supported by exports by *State*.

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[9] CRS is aware that in addition to information submitted to the subcommittee by DOL, current data are published monthly by DOL Employment and Training Administration, Office of Trade Adjustment. In addition, the *Federal Register* publishes the name and location of each plant for which trade adjustment assistance is approved.

[10] Indirect exports refer to manufactured input *upstream* to produce the intermediate inputs and capital goods, and *downstream* to complete the final products ready for export.

TABLE 1. Overview of DOL and DOC Sources for Data on Plant Closings, Mass Layoffs, and Worker Dislocations

Category	Data source offered by Departments of Labor (DOL) or Commerce (DOC)	General evaluation and comments	Does the source provide data for the "category" listed at left:				
			Does source provide data named in category at left?	By number of workers?	By industry (IND)/ occupation (OCC)?	By geographic area?	By reasons for closure, relocation, layoff, etc.?
Plant closures in U.S.	Mass Layoff Statistics Program/*Mass Layoffs and Plant Closings* (MLS--DOL)	Essentially, this source does not contain data on plant closings.	No	No	IND: No OCC: No	No	No
	Worker Adjustment and Retraining Notification (WARN) data system (DOL)	This source does not separate out plant closures from all layoff events	No	No	IND: No OCC: No	No	No
	Displaced Worker Survey/ *Displaced Workers* (DOC/DOL)	This source reports on proportions of tenured workers dislocated by plant closures, but *not* on the number of *plant closures* themselves	No	Reports number of workers, but not plant closings by number of workers	IND: No for plant closures, yes for workers dislocated by plant closures OCC: No	No	No
Plant relocations	MLS (DOL)	This source includes domestic and overseas plant relocations for 1986-1992; some data are reported by industry and relocation target for 1991-92 only	Yes, for the years 1986-92	Yes	IND: Some, for overseas relocations in 1991-92 OCC: No	No for relocation source; some for relocation target, for 1991-92 only	No
Downsizing	MLS (DOL)	Some line items could reflect downsizing	No	Yes	IND: No OCC: No	No	No

TABLE 1. Overview of DOL and DOC Sources for Data on Plant Closings, Mass Layoffs, and Worker Dislocations (cont.)

			Does the source provide data for the "category" listed at left:				
Category	**Data source offered by Departments of Labor (DOL) or Commerce (DOC)**	**General evaluation and comments**	**Does source provide data for category named at left?**	**By number of workers?**	**By industry (IND)/ occupation (OCC)?**	**By geographic area?**	**By reasons for layoff, relocation, etc.?**
All layoffs in U.S.	MLS (DOL)	Layoff data cover 26 States in 1986; 46 States in 1992	No, only for 7 years	Yes	IND: Yes OCC: No	Yes	Yes, but not by reason by industry
Displaced workers	*Displaced Workers* (DOC/DOL)	These data provide the best picture of worker dislocation. However, data published count only workers with *3 or more years' tenure* with employer	Yes	Yes	IND: Yes OCC: Yes	Yes	Yes
Displaced workers receiving TAA	Trade Adjustment Assistance program (DOL)	Detailed data exists on TAA beneficiaries, beginning in 1975	Yes	Yes	IND: Yes OCC: No	Yes	Yes -- Imports *contributed importantly*
Jobs lost in U.S. from import penetration	MLS	Not as inclusive as TAA data	No	Some: line item: "import competition"	IND: No OCC: No	No	No
Export-related jobs created	*Trade and Employment* (DOL)	Source does not track export-related jobs	No	No	IND: No OCC: No	No	Not applicable
	U.S. Jobs Supported by Merchandise Exports and *U.S. Jobs Supported by Merchandise Exports to Mexico* (DOC)	Provides specific data on export-related jobs from a Univ. of Maryland input/output model for 1983–1990	Yes for 7 years	Yes	IND: Yes OCC: No	Yes on foreign markets exported to; No on jobs created, by State	Not applicable

Table prepared by CRS.

OPTIONS FOR MAKING THE DATA MORE USEFUL TO POLICYMAKERS

In light of the weaknesses identified for the three data sources addressed above -- the MLS survey, the WARN program, and the displaced worker survey -- some options for strengthening these programs are included here. The DOC data sources are fairly complete (although data on export-related job creation by industry within each State would be useful). Options for strengthening the MLS, WARN, and displaced worker data systems under DOL could include:

MLS Data System:

1. The suspended MLS data program could be reinstated.

2. The MLS could *redefine "plant closing"* to include all permanent closings of branches or major departments as well as physical plants of an establishment.

3. The MLS could then collect and report data on plant closings.

4. The MLS could provide counts of workers, by industry and by geographic location, for separate permanent events including plant closings, plant relocations and other permanent layoffs (automation, downsizing, etc.)

WARN Data System:

1. A legislative requirement or DOL regulation could mandate *restructuring the compilation of* data by State dislocated worker units, from data reported by employers. Thus, data could be collected and reported on permanent plant closings, relocations, and other permanent layoff events, including the geographic area, the industry, and the number of workers associated with each event.

2. Data from the WARN system possibly could be fed into and coordinated with the more comprehensive MLS system. This coordination could result in a single system for producing data on plant closings, relocations, and permanent layoff events, avoiding duplication of effort and expense.

Displaced Worker Survey:

1. The DOL could pull from its data system and *publish* data on all workers -- not just data on workers with three or more years tenure with an employer. Currently, such data are available only to those who know to ask for it. Because these data are already in the data base, publication of more complete data could be done with minimum expense.

2. The DOL could *publish* data on the number of workers displaced *by* State or geographic region for categories of layoff events including permanent plant closures, plant relocations, and automation/downsizing.

CONCLUSIONS

The options mentioned for possible changes in the MLS, WARN, and displaced worker reporting systems could help provide policymakers with much needed data tracking U.S. plant closings, plant relocations, and worker dislocations. The results could enable these three systems to provide data both by industry and by geographic area, for the major types of permanent layoff events.

The question arises about duplication in data production, if all three systems are producing data to their potential. The basic potential for duplication lies with the WARN and the MLS system, which are both surveys of *establishments*. The displaced worker survey polls only *households*, and thus affords no count of establishments.

The displaced worker survey is a potentially important check on the other two systems in its counting of *workers* displaced from such events as plant closings and plant relocations -- events which employers may be reluctant to divulge. However, for the displaced worker survey to be truly useful for policy-making purposes, data on *all* displaced workers (not just the long-tenured ones, as is currently the case) need to be reported. Since these data on the entire universe of displaced workers are already tabulated in the system, the cost of reporting it should be fairly minimal.

While the WARN data production system *could* potentially be duplicative of the MLS system, the reverse is not the case, because the WARN system is potentially less inclusive (once the MLS system includes all States.) The WARN system only reports closing and layoff events in cases involving businesses of 100 or more workers. Ideally, what could evolve with the WARN and MLS systems is data *coordination* between the two systems. Efficiency in structuring a single data system from these two might well save the U.S. Government money in the longer term.

At present *neither* the MLS nor the WARN *establishment* data collection systems provides needed comprehensive data on plant closings. Both data collection systems miss the mark and the MLS system also misses its legislative mandate to provide: *data on plant closings, plant relocations and other permanent layoff events, tabulated by industry and by geographic location*. If these data were available, policymakers could use the resulting report on trends in industrial restructuring to help them make informed policy decisions. Especially important are decisions affecting U.S. workers and U.S. jobs, such as those surrounding the debate on NAFTA.

Statement of Thelma Wallen
Former Employee of United Technologies Automotive
Wabash, Indiana

Subcommittee on Oversight of Government Management
Hearing on

"Will Jobs Be America's Biggest Export Under NAFTA?"

Thursday, April 1, 1993

***

Dear Sirs:

On approximately March 1, 1991, we (the union officials of United Technology, Wabash, Indiana) were called into a meeting with the personnel manager, plant manager and company attorney for United Technologies. At this time we were informed that our plant was being closed on May 17, 1991. At this time we were issued the WARN notice, and told to inform (with the help of the personnel manager) all of our fellow employees of this decision.

We were told by company officials this was due to the economy and lack of orders from our main buyer, which was Chrysler Corporation. The company had recently replaced the top official over our district and on his first visit to our plant, he made the threat to shut it down. We were told the plant did not live up to U.T.'s "image."

For a few years (two or three), we had been cutting and terminating wire for Mexico due to their lack of equipment, at first, and later because of their large demand. We repaired finished harnesses for Mexico, did makeovers from the previous year's harness, did all prototypes (samples for Mexico), but were never able to take credit for any repairs done. These were marked "Made in Mexico."

We were always threatened with shut-down during contract negotiations between employees and the company, so when our negotiations were postponed two weeks prior to shut-down notice, we began to question this. Ninety per cent or more of our employees were paid $6.16 hourly at shut-down. For this salary we completed all types of wiring harnesses from the start to end, including electrically testing the finished products. Approximately one month before shut-down notice we received numerous new jobs to be started within a short period of time for the coming year's models. Suddenly they informed us we would not be doing these jobs and all the machinery and wire was moved out and shipped to Mexico.

The company gave us, in our shut-down negotiations, $400. We received our vacation check, which we had already earned according to our contract, along with 30 days insurance coverage, and they informed us this was more than the other plants that shut down had received.

We were offered no training, except for what the state provides for dislocated workers. This only pays for books and tuition for a two-year certification. As recently as last week, the program is out of money, and we were told that President Clinton has cut their budget $1.7 billion dollars, and there would probably not be money for us to continue our schooling.

The average age of the employees at this plant was 44.5 years old. Approximately 800 employees with around 500 on active payroll. The largest number of employees at this plant ever.

The majority of these folks are still without jobs or working for minimum wages. The few in school are without any benefits. Several older persons at the school I attend are now out of unemployment, and have no way to even buy food for themselves. These people spent

their entire lives working at this plant to receive $400.

Our former plant manager took a position in Mexico for United Technologies. Eight union employees were kept after the May 17 closing. I was one of those employees. We worked in shipping and receiving for the following month where we labeled and shipped all of our equipment (except for a few still jigs) and supplies to Mexico.

With this information we petitioned the government for TAA and were approved. When receiving the approval we also received the information that Chrysler Corporation had plenty of work for the Wabash, Indiana, plant, but had to send it elsewhere. I realize we have to have foreign trade, but when you have persons that have worked and devoted their whole lives to a company and are left without any way to make a living, due to lack of education, age and other problems, then it's time to do something about those folks.

Sincerely,

Thelma Wallen

Pillsbury

WILLIAM H. BIRTCIL
VICE PRESIDENT
GOVERNMENT & COMMUNITY AFFAIRS

TELEPHONE: 612/330-7390
FAX: 612/330-4350

April 9, 1993

The Honorable David Pryor
SR-267 Russell Senate Office Building
Washington, DC 20510-0402

RE: Inaccurate Testimony Regarding Green Giant

Dear Senator Pryor:

On April 1, 1993, Mr. Harry Browne from the Inter-Hemispheric Education Resource Center appeared before the Senate Government Affairs Subcommittee on Oversight of Government Management to testify regarding NAFTA. Mr. Browne submitted to the Subcommittee an article which contained the claim that Green Giant, a subsidiary of the Pillsbury Company, had transferred more than 1,000 jobs from a plant in Watsonville, California, to a plant in Irapuato, Mexico. This claim is simply incorrect.

As part of a system-wide operations reorganization launched in 1990, the Green Giant plant in Watsonville was modernized and converted to a regional processing facility. Approximately 270 regular and seasonal workers lost their jobs as a result of the Watsonville downsizing. (The number of persons laid-off initially less the number called back. Approximately half of those who were called back returned to work within two days of the lay-off.) The Watsonville plant remains open today, with a work force of approximately 150 people.

Concomitant with the downsizing of the Watsonville plant, Green Giant facilities in Wellston, Ohio; Belvidere, Illinois; and Irapuato were expanded. **At the time of the restructuring, Green Giant created as many new jobs (approximately 175) in our union plant in Wellston, Ohio, as we did in Irapuato, Mexico.**

The confusion about the number of jobs eliminated in Watsonville may stem from Green Giant's much earlier efforts to reduce reliance on seasonal workers in Watsonville. Beginning in the late 1970's through 1981, Green Giant withdrew from the private label vegetable packing business (200 seasonal workers); automated Brussels sprouts harvesting to reduce the amount of in-plant trimming required (75 - 125 seasonal workers); and automated some packaging operations (150-200 seasonal workers). Subsequent efforts by Green Giant and other processors in the Watsonville area to shift the harvesting and processing of some crops away from the fall season further reduced peak seasonal worker needs.

April 9, 1993
Page Two

Some Watsonville advocates respond to questions about employment issues by explaining that Green Giant employed more than 1000 people in Watsonville before the Irapuato plant opened in 1983 -- and now employs 1/10 that number. Many people, upon hearing these figures, infer that all of the Watsonville job reductions can be attributed to Irapuato operations. The inference is inaccurate. The Watsonville plant has not required 1,000 seasonal workers during peak periods in more than a decade. In fact, from the time the Irapuato plant opened in 1983 until the operations restructuring in 1990, employment levels at the Watsonville plant were stable.

It is important to note that Green Giant is an international enterprise selling products in more than 55 countries and maintaining plants or offices in 14 countries. In addition to the Irapuato facility, Pillsbury's Green Giant operations in Mexico include a marketing office in Mexico City, frozen food and dry grocery product distribution agreements with Mexican companies, and a mushroom processing facility in San Miguel de Allende licensed to produce product for Mexican markets as well as export.

The Irapuato facility plays a strategic role both in ensuring a plentiful and reliable source of broccoli and cauliflower for North American consumer markets (approximately 80% of Green Giant's customers are located <u>east</u> of the Mississippi River), and in positioning Green Giant to better serve its international markets. Mexico alone has the potential to become a $30 million a year market for Pillsbury and Green Giant branded products in the next five years.

We regret that the erroneous claim regarding Green Giant's Watsonville plant continues to mislead members of Congress, the media, and the public.

If you have any additional questions, please call me at (612)330-7390.

Sincerely,

WHB:gem

[redacted]

RESOURCE

CENTER

June 2, 1993

The Honorable Carl Levin, Chairman
Subcommittee on Oversight of Government Management
Committee on Governmental Affairs
442 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Levin:

Ms. Nancy Perron, Public Affairs Manager for Pillsbury, has called to my attention an apparent error in the preliminary report on plant relocations to Mexico that I submitted to your subcommittee on April 1, 1993. I understand that the members of the Committee on Governmental Affairs have received an identical letter on the subject from Mr. William Birtcil of Pillsbury.

In my preliminary report I attribute a loss of 1,000 jobs at a food processing plant in Watsonville, California to a decision by Pillsbury's subsidiary Green Giant to shift production and processing of broccoli and cauliflower to Irapuato, Mexico over the period from 1983 to 1990. The figure for lost jobs came from congressional testimony of Mr. Jack Otero, then-president of the Labor Council for Latin American Advancement. Mr. Otero spoke before the House Subcommittee on Economic Development on May 8, 1991.

Mr. Joe Fahey, president of Teamsters Local 912 in Watsonville--the local that has represented hourly workers at Green Giant at least since 1980--confirmed that peak employment has dropped by roughly 1,000 people from the early 1980s to 1992, and that employment in Mexico in broccoli and cauliflower processing has risen correspondingly.

According to Pillsbury, however, fewer than 200 jobs were shifted from Watsonville to Mexico, all of these resulting from a restructuring in 1990. The company acknowledges that peak employment levels at the Green Giant plant have dropped from over 1,000 prior to 1983 to roughly 150 today, but claims that factors other than the Mexico plant are responsible for the bulk of that reduction. Pillsbury's argument is incomplete at best.

After further study of this case, it is my belief that the truth lies somewhere between the figures of 200 and 1,000. Based on information provided by Ms. Perron and Mr. Fahey, my best estimate is that from 1982 to 1992 Green Giant transferred some 670 jobs to Mexico.

I regret the apparent error in my preliminary report and appreciate this opportunity to provide a more accurate estimate. I would like to observe, however, that greater openness on Pillsbury's part would have made the technical discussion that follows unnecessary. The Coalition for Justice in the Maquiladoras--of which my organization is a member--has run into a similar

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Office: (505) 842-8288
Facsimile: (505) 246-1601

problem. Since 1991, Coalition officials have attempted to meet with Pillsbury executives regarding working and living conditions at and around the plant in Irapuato. Company representatives have repeatedly postponed and cancelled meetings for a variety of reasons.

The technical debate clouds a crucial point related to Green Giant's production shift to Mexico. Regardless of how many jobs were lost at the Watsonville plant, overall U.S. employment in broccoli processing declined precipitously from 1983 to 1992. In the former year, domestic production accounted for 89.5 percent of all frozen broccoli consumed in the United States, according to official statistics of the American Frozen Food Institute, and data from the U.S. International Trade Commission and the Department of Commerce. Mexico contributed 8.7 percent to the total. By 1992, U.S. production had declined in volume by over 100 million pounds (over one-third), accounting for only 32 percent of total consumption, while frozen broccoli imported from Mexico had surged by 324 million pounds to supply 62.3 percent of the total. Green Giant's leadership role in the industry and its decision to relocate to Mexico may well have helped "break the ice" for other producers. According to Mr. Fahey, 11 frozen vegetable packing companies closed in California's Central Valley from 1980 to 1992.

Green Giant appears to be aware of the sensitive nature of these statistics. On March 2 of this year the U.S. Customs Service warned the company that it had 60 days to change the labels on its ambiguously named "American Mixtures" frozen vegetable products to make the words "Product of Mexico" more conspicuous.

I would like to call attention to problems in Pillsbury's response both concerning the 1990 restructuring and the 1983 opening in Mexico.

Ms. Perron asserts that roughly "270 regular and seasonal workers lost their jobs as a result of the Watsonville downsizing" of 1990, and that Green Giant created approximately 175 jobs as a result in Mexico. It is not clear how the company arrived at these numbers. Green Giant's application to the U.S. Department of Labor (DOL) for retraining benefits claimed that 370 workers had lost their jobs as a result of the switch to foreign production. If any of the job losses had resulted from a shift of production to Ohio, as Pillsbury implies, they would not have been included in an application for TAA benefits. Three facts shed light on this discrepancy and suggest that the number of jobs shifted to Mexico was indeed closer to 400 than to 200.

• Green Giant recalled approximately 90 of the workers it had laid off. According to Mr. Fahey, Green Giant recalled the workers because the planned expansion of the Mexican plant was behind schedule and the facility could not absorb all of the broccoli and cauliflower work. Their 1991 employment levels in Watsonville and Irapuato were thus higher and lower, respectively, than the company had expected in 1990. By 1992, however, these jobs had found their way to Irapuato and no broccoli or cauliflower processing was assigned to the Watsonville plant. Mr. Birtcil is very careful to specify that "at the time of the restructuring," Green Giant created approximately 175 jobs in Mexico. It would appear that if 1992 were included, the figure would be significantly

higher.

• Green Giant gave notice to its workers of the planned job cuts over six months before the cuts were to take place, for which it should be commended. With this advance notice, forty workers whose jobs were eliminated decided not to report back for work after the off-season, although this prevented them from obtaining severance benefits. Technically, then, these people were not laid off, and may not be included in the company's figure for jobs lost to Mexico.

• Sixty-seven workers accepted Green Giant's offer of early retirement, again meaning that these job cuts were not counted as layoffs. Again the company should be credited with reducing the work force in a relatively humane manner, but for the purposes of calculating the job shift to Mexico these positions must be included.

The question of how many jobs were sent to Mexico after Green Giant's plant opened in Irapuato is more difficult to resolve. This need not be the case, however. I am unaware of any reason that the company could not make public its employment figures for broccoli and cauliflower processors for appropriate pre- and post-1983 periods. It is difficult to believe that the firm's accountants do not keep track of the costs of production of each of the products Green Giant sells, since this would be the only way Green Giant executives could decide the optimal product mix each year. As long as Green Giant's combined production volume in Watsonville and Irapuato has not declined--and no one has suggested that it has--comparing the average number of person-days used in each location for broccoli/cauliflower processing for, say, the period from 1978 to 1982 with that for 1984 to 1988 would provide a definitive answer to this question.

Of course, as Ms. Perron has pointed out to me, the company is under no obligation to release employment reports or to disprove the assertions of worker representatives. Its failure to do so, however, forces outside observers such as myself to piece together any available evidence. The evidence I have used includes the following:

• Currently employment at the Watsonville plant varies from 105 to 150, reaching its peak during the spinach season.

• From 1983 to 1990, annual employment averages varied from 382 to 474 according to Ms. Perron's communication to me. These numbers include all vegetable processing, and do not address the question of peak employment during broccoli/cauliflower season(s). As a rough estimate that is consistent with figures provided by the company and the union for 1974, 1979, 1982, and 1992, average annual employment can be multiplied by a factor of 1.5 to obtain peak employment. This produces a variation in peak employment from 1983 to 1990 from almost 600 to over 700. Again as a rough estimate, the average peak employment during that period could be considered to be 650.

• Before and including 1983, according to Ms. Perron, annual averages ranged from 730 to 384. Since the latter figure is for 1983, when jobs appear to have been shifted to Mexico, it is impossible to judge its relevance to the pre-1983 period. It is, however,

consistent with the 1983 to 1990 period. Applying the 1983 to 1990 variation in annual employment averages--roughly 25 percent--to pre-1983 period, produces a figure of 580 or so for the lowest annual average employment level. If the average for the pre-1983 period as a whole is then approximately 650, average peak employment would have been around 950. This is some 300 jobs greater than the 1983 to 1990 period.

Pillsbury asserts that various changes unrelated to the opening of a plant in Mexico account for much of the apparent decline in jobs from the late 1970s to the early 1980s. But the relevance of these changes is questionable. Withdrawing from the private label vegetable packing business may not be related to broccoli/cauliflower production and may not have reduced overall production volumes. Automating Brussels sprouts harvesting is clearly unrelated to broccoli/cauliflower processing. And automating some packaging operations again begs the question of which vegetables were involved.

It is my belief that 300 jobs shifted in or around 1983 is a conservative estimate. It is very likely that peak production before 1983 occurred in the broccoli/cauliflower season, but that after 1983 it corresponded to the production schedule of a different crop. In that case a peak-to-peak comparison would understate the jobs lost in broccoli/cauliflower production.

Combining this estimate of 300 jobs with the figure of 370 jobs in 1990-91 produces a revised estimate of 670 jobs shifted. According to a lengthy story in the June 16, 1991 issue of *West* magazine, Green Giant's average--not peak--employment in Irapuato at that time was some 850 workers. This too is consistent with the job shift estimate.

Once again, I thank you for your interest in this subject. If I can be of any further assistance please do not hesitate to contact me.

Sincerely,

Harry Browne
Research Associate

cc: Frankie de Vergie, Chief Clerk
Nancy Perron, Pillsbury

United States Senate
COMMITTEE ON
GOVERNMENTAL AFFAIRS
WASHINGTON, DC 20510-6250

December 15, 1992

The Honorable Barbara H. Franklin
Secretary
Department of Commerce
Room 5858
14th Street and Constitution Avenue, N.W.
Washington, D.C. 20230

Dear Madam Secretary:

The Subcommittee on Oversight of Government Management is currently reviewing the federal government's data collection process with respect to plant closures and mass layoffs in anticipation of the debate on the North American Free Trade Agreement (NAFTA).

Reliable information is needed on plant closures and layoffs in the United States in order to properly evaluate the impact of NAFTA on the American economy. Specifically, it would be very helpful to know how many American manufacturing jobs have moved to foreign plants over the past decade and the industries, geographiic area (state and region), and number of individuals affected by such moves. For this reason, we ask that you answer the following questions and provide the requested information.

1. What surveys does the Commerce Department currently conduct relative to the U.S. manufacturing base (e.g., employment, output)? Please provide brief descriptions of each of these surveys, including methodologies used, and provide copies of the most recent results. With whom, including other federal agencies, does the Department routinely share the results of these surveys?

2. Please describe the information the Commerce Department maintains on companies that have moved plants or production to foreign countries. Please describe whether such information is available by industry, geographic area

(state and region) in the United States, country of destination, reasons for the move and number of workers affected.

3. Please describe the information the Commerce Department maintains on companies that have downsized their workforce. Please describe whether such information is available by industry, geographic area (state and region), both the pre-existing and downsized employment levels, and the reasons for the downsizing.

4. Please describe the information the Commerce Department maintains on plant closures in the United States. Please describe whether such information is available by industry, geographic area (state and region), number of workers, and reasons for closures.

5. Please describe the information the Commerce Department maintains on layoffs in the United States. Please describe whether such information is available by industry, occupation, geographic area (state and region), number of workers, and reasons for the layoff.

6. Please describe the information the Commerce Department maintains on the number of export-related jobs created each year in the United States. Please describe whether such information is available by industry, occupation, geographic area (state and region), and number of workers.

7. Please describe the information the Commerce Department maintains on the number of jobs lost in the United States due to import penetration each year. Please describe whether such information is available by industry, occupation, geographic area (state and region), and number of workers.

8. Does the Commerce Department have access to the results of the Mass Layoff and Plant Closing Survey? What, if anything, does the Department do with the information obtained from this survey?

9. Does the Commerce Department have access to the information obtained from the WARN notification program? What, if anything, does the Department do with this information?

The Honorable Barbara H. Franklin
December 15, 1992
Page Three

We ask that you respond to this request no later than January 10. Please direct any questions or comments you may have to Alison Pascale (Senator Levin) at 224-6221 or Kim Corthell (Senator Cohen) at 224-5538.

Thank you for your attention to this request.

Sincerely,

Carl Levin
Chairman

William S. Cohen
Ranking Minority Member

Subcommittee on Oversight of Government Management

CL:WSC:ljg

THE SECRETARY OF COMMERCE
Washington, D.C. 20230

January 13, 1993

Honorable Carl Levin
Chairman, Subcommittee on
Oversight of Government Management
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510-6250

Dear Mr. Chairman:

Thank you for your cosigned letter regarding the availability of data on plant closures and layoffs. The Department of Commerce has information only for Questions 1 and 6 that may be helpful in debating the North American Free Trade Agreement.

The most current survey about the U.S. manufacturing base is the 1990 Annual Survey of Manufactures (ASM) (Enclosure 1). The survey collects information on employment, value of shipments, operating costs, and other information describing characteristics of the manufacturing sector. Several Federal agencies use ASM data as benchmarks for their statistical programs.

The annual report, "Exports From Manufacturing Establishments," includes 1988 and 1989 estimates of the value of manufactured exports and export-related employment (Enclosure 2). The report shows exports and related employment by state, industry group, and state by industry group. This report does not have information on occupations.

Also, we are including a report, "U.S. Jobs Supported by Merchandise Exports," that shows estimates of U.S. employment supported by total domestic merchandise exports for 1983 through 1990 (Enclosure 3). The report provides separate estimates for jobs supported by agriculture, manufactured, and nonmanufactured goods; and total exports to Canada, Mexico, other Latin America countries, Japan, and European Community countries. We recently published a supplemental report for U.S. exports to Mexico (Enclosure 4). These reports include no estimates by occupation or by U.S. geographic area.

If we can be of further help or provide additional information, please call Mr. Bruce Goldhirsch of the Bureau of the Census on (301) 763-1503. Thank you for your interest.

Sincerely,

Barbara H Franklin

Barbara Hackman Franklin

Enclosures

United States Senate

COMMITTEE ON
GOVERNMENTAL AFFAIRS
WASHINGTON, DC 20510-6250

December 15, 1992

The Honorable Lynn Martin
Secretary
Department of Labor
Room S2018
200 Constitution Avenue, N.W.
Washington, D.C. 20210

Dear Secretary Martin:

The Subcommittee on Oversight of Government Management is currently reviewing the federal government's data collection process with respect to plant closures and mass layoffs in anticipation of the debate on the North American Free Trade Agreement (NAFTA).

Reliable information is needed on plant closures and layoffs in the United States in order to properly evaluate the impact of NAFTA on the American economy. Specifically, it would be very helpful to know how many American manufacturing jobs have moved to foreign plants over the past decade and the industries, geographic area (state and region), and the number of individuals affected by such moves. For this reason, we ask that you answer the following questions and provide the requested information.

1. Please describe, and provide where readily available and in an organized form, the information you have on all plant closures in the United States for each of the past 10 years. Please describe whether such information is available by number of workers, industry, geographic area (state and region), and reasons for the closure.

2. Please describe, and provide where readily available and in an organized form, the information you have on all companies that have moved plants or production to foreign countries during the past 10 years. Please describe whether such information is available by industry, geographic

The Honorable Lynn Martin
December 15, 1992
Page Two

area (state and region) in the United States, country of destination, reasons for the move, and number of workers affected.

3. Please describe, and provide where readily available and in an organized form, the information you have on companies that have downsized their workforce during the past 10 years. Please describe whether such information is available by industry, geographic area (state and region), both the pre-existing and downsized employment levels, and the reasons for the downsizing.

4. Please describe, and provide where readily available and in an organized form, the information you have on all layoffs in the United States for each of the past 10 years. Please describe whether such information is available by industry, occupation, geographic area (state and region), number of workers, and reasons for the layoff.

5. Please describe, and provide where readily available and in an organized form, the information you have on dislocated workers in the United States for each of the past 10 years. Please describe whether such information is available by industry, occupation, geographic area (state and region), number of workers, and reasons for the dislocation.

6. Please describe, and provide where readily available and in an organized form, the information you have on the number of dislocated workers receiving Trade Adjustment Assistance (TAA) benefits in the United States for each of the past 10 years. Please describe whether such information is available by industry, occupation, geographic area (state and region), and number of workers.

7. Please describe, and provide where readily available and in an organized form, the information you have on the number of export-related jobs created in each of the past 10 years. Please describe whether such information is available by industry, occupation, geographic area (state and region), and number of workers.

8. Please describe, and provide where readily available and in an organized form, the information you have on the number of jobs lost in the United States due to import penetration for each of the past 10 years. Please describe whether such information is available by industry, occupa-

The Honorable Lynn Martin
December 15, 1992
Page Three

tion, geographic area (state and region), and number of workers.

9. Does the Mass Layoff and Plant Closing Survey include data on plants that are closed even though other plants of the same company remain open and operational? Does it include information on plants that are relocated and, if so, to what extent? If you have such information, please specify the time period it covers and whether it is comprehensive.

10. Is there any process by which the data obtained from the WARN notification program is consolidated at the federal level to develop a comprehensive and nationwide picture of the effect of plant closures?

11. To the extent the information referred to is not available, please identify the steps your agency could take to collect this information in the future and make it available to the public. Please describe both the benefits and the costs in taking such steps.

We ask that you respond to this request no later than January 10. Please direct any questions or comments you may have to Alison Pascale (Senator Levin) at 224-6221 or Kim Corthell (Senator Cohen) at 224-5538.

Thank you for your attention to this request.

Sincerely,

Carl Levin
Chairman

William S. Cohen
Ranking Minority Member

Subcommittee on Oversight of Government Management

CL:WSC:ljg

U.S. DEPARTMENT OF LABOR

SECRETARY OF LABOR
WASHINGTON, D.C.

JAN 19 1993

The Honorable Carl Levin
Chairman, Subcommittee on Oversight
of Government Management
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510-6250

Dear Chairman Levin:

This is in further response to you and your colleague's letter concerning the Department of Labor's data collection efforts with respect to plant closings and mass layoffs. Enclosed are data and responses to the first ten questions in the order in which they were asked.

In terms of question 11, staff from the Bureau of Labor Statistics would be available to discuss your reaction to these materials and to the most important data gaps you feel still exist. (Thomas J. Plewes of the Bureau of Labor Statistics would be the contact person. He can be reached on 202--606-6400.) Much of the data provided in the enclosures are derived from the Bureau of Labor Statistics' Mass Layoff Statistics program, which was discontinued at the end of FY 1992. As I have expressed in letters to Chairmen William H. Natcher, Tom Harkin, and Edward M. Kennedy (copies enclosed), I agreed to fund that program in FY 1992 out of Job Training Partnership Act Title III (Economic Dislocation and Worker Adjustment Assistance) discretionary resources, in the hope that Congress would thereafter explore other means of supporting it. While the recently passed Job Training Partnership Act amendments authorized funding for the program under Title IV, Congress did not see fit to appropriate the funds under this title indicating, in my view, a relatively low priority for the program. I felt the nearly $6 million annual cost of the program was difficult to justify for the reasons I cited in my letters.

If I can be of further assistance, please do not hesitate to contact me.

Sincerely,

Lynn Martin

LYNN MARTIN

Enclosures

RESPONSES TO QUESTIONS 1-10

1. A wide range of statistical information on plant closings and mass layoffs have been collected in the Bureau of Labor Statistics' Mass Layoff Statistics (MLS) program. This program--in operation from 1984 through its discontinuation at the end of FY 1992--identified layoffs and closings affecting 50 or more workers which lasted more than 30 days. Information was obtained from the employer on reason for the layoff; in 1991, the information included specification of the country to which an establishment was relocating, when out-of-country moves were reported. The affected workers were identified as to the State and county in which they resided. Data were also obtained on the workers' status as initial claimants for unemployment insurance (UI) benefits, and, subsequently when applicable, as exhaustees of such benefits. Some demographic information on age, race/ethnicity, and gender of the workers was also obtained.

Annual reports of MLS data were published beginning with data for 1986, when data for 26 States were included in the report. Data for the first half of 1992 are available for 46 States and the District of Columbia.

Selected tables from the 1986-1991 reports and tables on overseas relocations are provided in the enclosure entitled MLS Program Data. Table 1 from each year's report contains information on establishments, layoff events, all separated workers, and those filing initial claims for UI by major industry group. Table 2 provides this information by specific manufacturing industry. Table 3 lists the reason for separation as given by the employer. Table 4 arrays the data based on State. For 1990 and 1991, table 11 contains information on MLS initial UI claimants and UI exhaustees based on the metropolitan area of residence, for the top 100 such areas. In addition, enclosed are the last two news releases for the program, covering the first and second quarters of calendar year 1992, and special tables describing overseas relocations during the period. The enclosed statistics comprise the MLS data readily available to address the request for plant closing and mass layoff information contained in the letter.

While the MLS data are not arrayed by closure versus layoff, historically, closures account for somewhere on the order of 10-15 percent of the layoff events and worker separations. The concept of closure used in the MLS program relates only to the entire establishment closing or planning to close. If parts of the establishment--a branch or department--were closing, the establishment was considered to be staying open.

The contact person at the Bureau of Labor Statistics for the MLS program is Sharon Brown (202-606-6390).

2 and **3**. Table 3 of the enclosed MLS data provides information on reasons for worker separation. Data on out-of-country moves by business establishments tabulated by industry and country are contained in the enclosed tables for 1991 and the first half of 1992.

Data are collected by the Bureau of Labor Statistics under a pledge of confidentiality to its respondents. This helps insure cooperation in voluntary surveys and protects the integrity of the responses. The Bureau, therefore, cannot provide information on specific companies that have relocated or downsized their workforces.

4. Please see the MLS Program Data enclosure for MLS data on layoffs and affected workers. Information was not collected in the MLS program on the occupation of laid-off workers.

Another source of information on this topic is the Current Population Survey (CPS), a monthly survey of 60,000 households measuring the labor force status of the population. While the CPS does not provide a direct measure of the number of workers laid off during a specific period, it does provide information on the number of unemployed persons who entered the jobless stream because of job loss, rather than by leaving their jobs voluntarily or by rentering the job market after a period out. The "job losers" category is further divided into workers "on layoff" (those expecting recall to their jobs) and "other job losers" (permanent job loss). Data on unemployed job losers are available on both monthly and annual bases. It is important to note, however, that such figures only represent those job losers who were unemployed at the time of the survey and do not include those who were working at another job or who subsequently exited from the labor force.

Data on unemployed job losers are not published by industry and occupation, but can be made available on request. Data for all unemployed workers (regardless of reason), by contrast, are regularly published by industry and occupation. Annual averages for the past 10 years are included in the enclosure entitled CPS Data. The contact person at BLS for the CPS data is Paul Flaim (202-606-6378).

5. While the CPS does not provide a total count of workers who have been laid off, information specifically on dislocated workers--that is, long-tenured workers who have

lost their jobs for any of a specific set of reasons--is collected through a regular supplement to the survey. Collected every other January since 1984, the displaced worker supplements have included a set of questions specifically intended to identify displaced workers and to determine how they adjusted to their displacements. Together, the surveys cover the January 1979-January 1992 period. A person is identified as having been displaced if he or she has lost or left a job due to 1) the closing or moving of a plant or business, 2) slack work or materials shortage, or 3) position or shift abolishment. In order to focus on workers with significant attachment to their jobs, BLS analyses are restricted to workers who had been with their employer for at least 3 years when they were displaced. Data from each of the surveys has been released to the public through a press release, after which the Bureau publishes a more detailed analysis. The press releases and publications, which include data tabulated by many different variables including industry, occupation, and geographic regions, are included in the CPS Data enclosure.

Please see the tables in the MLS Data enclosure for dislocated workers according to MLS specifications.

6. Enclosed is a table on the Trade Adjustment Assistance (TAA) program, taken from a recent Mathematica Policy Research report. This provides basic information on the program by calendar year. The data on Number of Petitions Certified can be made available by State and Standard Industrial Classification (SIC) code, if necessary. The data on TAA services can be made available by State. The contact person at the Employment and Training Administration is Joseph Hines (202-219-6540).

7. Conceptually and empirically, the measurement of job creation (or job loss) due to export (or import) demand is difficult, and at present there does not exist an official data series that fully identifies the extent of such activity. Based on a number of economic and statistical assumptions, the Bureau of the Census has published estimates of the number of export-related jobs created in manufacturing establishments on an annual basis since 1983. The most current information is in their publication Exports from Manufacturing Establishments: 1988 and 1989 (AR 89-1, issued November 1992). The data are for directly exported goods and for the indirect requirements supporting manufactured exports, and are cross-tabulated by State and industry group but not by occupation. The contact person at the Bureau of the Census for these data is Bruce Goldhirsch, Chief of the Special Reports Branch (301-763-1503).

While BLS does not have a measure of export-related jobs, it does follow current employment trends in industries that rely heavily on exports for sales. The Current Employment Statistics program produces such a series monthly. Note that this series is not a measure of jobs created by exports, but rather the aggregate employment level in industries that had at least 20 percent of their 1987 employment tied to either direct or indirect exports. The industry selection is based on the Census Bureau's data and will be revised using the publication cited above when BLS releases the January 1993 employment data in February 1993. It is important to note that the change in employment in the special BLS series not only relates to changing export demand, but primarily reflects domestic consumption trends. In fact, in many industries export growth has partially offset employment declines resulting from decreases in domestic orders during the recent recession.

Data are enclosed from 1985 (the beginning of the series) through November 1992. Although the series is not published, it is available monthly upon request from Lois Plunkert of the Current Employment Statistics program at BLS (202-606-6527).

8. The number of jobs lost due to import penetration is not measured by BLS. However, net employment change in selected mining and manufacturing industries that are most heavily impacted by imports is published quarterly in a joint BLS/Census Bureau publication, Trade and Employment (table 11). A copy is enclosed. As with the export-related series described above, the employment trends are influenced by many factors in addition to imports, primarily domestic and export demand.

9. The MLS program did collect data on plants that are closed even though other parts of the company remained open. The classification of such a layoff event as a closure or a layoff depended on the statistical reporting arrangement of the worksite to the parent company. Also, information was collected on both domestic and foreign relocation as the reason for separation. The program specifications for closures versus layoffs and for reasons for layoff were not altered during the life of the program.

10. The Worker Adjustment and Retraining Notification (WARN) Act requires employers to provide notice 60 days in advance of covered plant closings and covered mass layoffs. Enforcement of WARN requirements is through the United States district courts. Staff at the U.S. Department of Labor only respond to inquiries regarding the requirements for advance notice of worker layoffs under the WARN legislation.

The Department collects data on WARN notifications as they relate to JTPA Title III program operations. The States report the number of WARN notices received on the Worker Adjustment Program Quarterly Financial Report. These data are displayed, by year, for the nation and each State in item 11 of the appropriate page of the summary reports contained in the WARN Act Data enclosure. Joseph Hines of the Employment and Training Administration is the contact person for questions on WARN (202-219-6540).

COMMITTEE ON EDUCATION AND LABOR

U.S. HOUSE OF REPRESENTATIVES

2181 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, DC 20515-6100

TELEPHONES:
MAJORITY—(202) 225-4527
(TTY)—(202) 226-3372
MINORITY—(202) 225-3725
(TTY)—(202) 226-3116

(RF)

November 20, 1992

The Honorable Lynn Martin
Secretary of Labor
U. S. Department of Labor
200 Constitution Avenue, N.W.
Washington, D.C. 20210

Dear Madame Secretary:

I am disturbed by a report that you do not intend to follow the instructions of the appropriations committees with respect to funding of the Bureau of Labor Statistics' Permanent Mass Layoff (MLS) and Plant Closing Report. As you know, both committees have instructed you to use money appropriated for the Job Training Partnership Act (JTPA) to fund the MLS program in Fiscal Year 1993, just as you did in Fiscal 1992.

Last year, you gave Congress notice that you did not intend to be bound by report language again this year if you were directed to use JTPA national account money for MLS. We did not ignore your warning. In fact, we took it to heart and amended JTPA to reserve $6,000,000 for the MLS program from the amounts appropriated under Title IV of JTPA, so as not to impact the funding of dislocated workers programs under Title III. This reservation, which now appears in section 3(c)(2)(B)(iii) of JTPA, makes funding for MLS a priority for your Department.

In light of this Congressional reaffirmation of the importance of the MLS program and in light of the debate over the potential impact of a North American Free Trade Agreement and the importance of identifying the dislocations it may cause, I urge you to comply with the intent of Congress and fund the MLS program. No other statistical program is available to the government that can track NAFTA-related dislocations in a timely manner.

The Honorable Lynn Martin
November 20, 1992
Page Two

No one will benefit from another unnecessary disruption in the development of the MLS program.

With kind regards,

Sincerely,

WILLIAM D. FORD
Chairman

WDF:pmm

cc: The Honorable William H. Natcher, Chairman
Subcommittee on Labor--Health and Human Services --Education, U. S. House of Representatives
The Honorable Tom Harkin, Chairman
Subcommittee on Labor, Health and Human Services, Education, U. S. Senate

Within

U.S. DEPARTMENT OF LABOR

SECRETARY OF LABOR
WASHINGTON, D.C.

DEC 16 1992

The Honorable Edward M. Kennedy
Chairman, Committee on Labor and
Human Resources
United States Senate
Washington, D.C. 20510

Dear Chairman Kennedy:

This letter is to inform you of my decision to discontinue funding of the Bureau of Labor Statistics' Mass Layoff Statistics program. Despite the reservations I communicated to Congress last year, the Senate Committee Report accompanying the FY 1993 Appropriations Bill has again directed the Department to finance the program using Job Training Partnership Act Title III Economic Dislocation and Worker Adjustment Assistance discretionary resources.

In my previous letter, I stated that the $5.9 million annual cost is difficult to justify in light of the availability of biennial surveys which provide comprehensive national estimates of dislocated workers and the fact that about 3,000 dislocated workers would be unable to enter the program as a result of such a funding mechanism.

My position has not changed. I agreed to fund the program in FY 1992, as directed, hoping that Congress would explore other means of supporting it. While the recently passed Job Training Partnership Act amendments authorized funding for the effort under Title IV, Congress did not see fit to appropriate the funds under this title indicating, in my view, a relatively low priority for the program. Given the choice between serving those individuals hardest hit by economic dislocation or continuing the collection of data under the Mass Layoff Statistics program, I must choose the former.

Sincerely,

Lynn Martin

LYNN MARTIN

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U.S. DEPARTMENT OF LABOR

SECRETARY OF LABOR
WASHINGTON, D.C.

DEC 16 1992

The Honorable Tom Harkin
Chairman, Subcommittee on Labor,
Health and Human Services,
Education, and Related Agencies
Committee on Appropriations
United States Senate
Washington, D.C. 20510

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Lynn Martin

LYNN MARTIN

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U.S. DEPARTMENT OF LABOR

SECRETARY OF LABOR
WASHINGTON, D.C.

DEC 16 1992

The Honorable William H. Natcher
Chairman, Subcommittee on Labor,
Health and Human Services,
Education, and Related Agencies
Committee on Appropriations
U.S. House of Representatives
Washington, D.C. 20515

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Sincerely,

Lynn Martin

LYNN MARTIN

United States Senate

COMMITTEE ON
GOVERNMENTAL AFFAIRS
WASHINGTON, DC 20510-6250

March 12, 1993

The Honorable Barbara E. Bryant
Director
Bureau of the Census
Department of Commerce
Washington, D.C. 20320

Dear Madam Director:

The Subcommittee on Oversight of Government Management, in anticipation of the debate on the North American Free Trade Agreement (NAFTA), is currently reviewing the federal government's collection and analysis of data on U.S. imports and exports.

Reliable information on U.S. exports to and imports from Mexico is essential for proper evaluation of the effects NAFTA will have on various sectors and elements of the U.S. economy. Especially helpful would be data on items transferred between firms located in the U.S. and manufacturing facilities in Mexico which are part of the Mexican government's maquiladora program. Therefore, we ask you to answer the following questions and to provide the information requested.

(1) Is capital equipment, both new and used, that is shipped from the U.S. to manufacturing facilities in Mexico which take part in the Mexican government's maquiladora program, included in U.S. export data? Is any distinction made in U.S. trade data between such equipment shipped to maquiladoras and such equipment shipped to non-maquiladora facilities in Mexico?

(2) Are all parts, subassemblies and supplies shipped from the U.S. to maquiladoras in Mexico included in U.S. export data? Is any distinction made in U.S. trade data between such items shipped to maquiladoras and such items shipped to non-maquiladora facilities in Mexico?

(3) The following questions pertain to maquiladora products which contain parts, subassemblies and supplies shipped from firms in the U.S. to maquiladoras for assembly, processing, alteration or repair, and then shipped back to the U.S.:

The Honorable Barbara E. Bryant
March 12, 1993
Page Two

(a) Are all such products included in U.S. import data?

(b) Is any distinction made in U.S. import data between maquiladora products and products of non-maquiladora facilities in Mexico shipped to the U.S.?

(c) Does U.S. import data include the entire value of these maquiladora products or is just the value added in Mexico included? Is any distinction made in U.S. trade data between, or in U.S. treatment of, such items shipped to and from maquiladoras and such items shipped to and from non-maquiladora facilities in Mexico?

(d) Does U.S. trade data identify these types of maquiladora products as such, or distinguish them from products of non-maquiladora facilities in Mexico shipped to the U.S.? Is U.S. trade data assembled or organized in such a manner to permit identification of these maquiladora products?

(4) Why are U.S. exports to and imports from Mexico handled in this manner?

(5) What efforts have been undertaken to improve U.S. trade data concerning items shipped between the U.S. and Mexican maquiladoras?

(6) What additional efforts in that regard could be undertaken?

We ask that you respond to this request no later than Monday, March 22. Please direct any questions or comments you may have to Jim Bean or Alison Pascal of my staff at 224-6221.

Thank you for your attention to this request.

Sincerely,

Carl Levin

Carl Levin, Chairman
Subcommittee on Oversight of Government Management

CL:ljg

UNITED STATES DEPARTMENT OF COMMERCE
Bureau of the Census
Washington, D.C. 20233

OFFICE OF THE DIRECTOR

MAR 19 1993

The Honorable Carl Levin
Chairman, Subcommittee on
Oversight of Government Management
Committee on Governmental Affairs
United States Senate
Washington, D.C. 20510-6250

Dear Mr. Chairman:

Thank you for your letter to former Director Barbara Bryant regarding U.S. export and import data for Mexico particularly relating to maquiladora trade.

The answers to your questions are:

Questions 1 and 2: The U.S. export statistics do include shipments of capital equipment, parts, subassemblies, and supplies to maquiladora facilities in Mexico. The data make no distinction between shipments to maquiladoras and those destined for other entities.

Question 3: The U.S. import data includes articles assembled in maquiladora plants containing previously exported U.S. components but again the data do not identify maquiladora products specifically. The data include the total value of the imported product, including the value of U.S. components. The Census Bureau compiles supplemental data on imports entered under Harmonized Tariff Schedule of the United States Annotated (HTSUSA) number 9802.008010 and 9802.008060 (Articles assembled abroad wholly or partly from U.S. components) separating the value of U.S. components and value of the foreign components. (Please see the enclosed extract for Mexico.) Although these data cover more than maquiladora products, they provide a good approximation of this type of trade with Mexico.

Question 4: The U.S. export and import statistics show these assembly-type transactions for Mexico in the same manner as for all other countries and are according to the reporting requirements set forth in the HTSUSA and the Foreign Trade Statistics Regulations.

Question 5: The Census Bureau is currently working with Mexico's statistical agency, Instituto Nacional de Estadística, Geografía é Informática, in a trade data reconciliation project designed to identify and investigate areas where one partner's export data are significantly different from the other partner's imports. While not aimed specifically at maquiladora trade, this activity allows the agencies to evaluate the quality of the overall trade statistics and identify areas for improvement.

The Honorable Carl Levin 2

Question 6: To specifically identify maquiladora trade, the export and import documents require revision to provide a specific statistical element to identify each individual transaction. The reporting of any new data element requires strict monitoring and enforcement by both the Customs Service and the Census Bureau to ensure reliable data. Since most of the trade documentation is handled by brokers and freight forwarders, who may well be unable to respond, revision would substantially increase the reporting burden of respondents.

If you need further information, please have a member of your staff call Mr. Don L. Adams, Chief, Foreign Trade Division, on (301) 763-5342.

Sincerely,

Harry A. Scarr

Harry A. Scarr
Acting Director
Bureau of the Census

Enclosure

93-447 E

CRS Report for Congress

NAFTA:
U.S. Employment and Wage Effects

Mary Jane Bolle
Specialist in Labor Economics
Economics Division

April 27, 1993

CRS

Congressional Research Service • The Library of Congress

NAFTA: U.S. EMPLOYMENT AND WAGE EFFECTS

SUMMARY

One question asked again and again in connection with the North American Free Trade Agreement (NAFTA) between the United States, Mexico, and Canada is: *What will be the effect of NAFTA on U.S. jobs and wages?*

The answer is: At the present time, the jury is still out. Despite more than 20 studies estimating the potential effect of NAFTA on employment and wages, important questions are still unanswered and unanswerable.

There are a number of problems with studies that have *tried* to estimate the potential effect of NAFTA on employment and wages. For the most part, these studies have attempted to predict job and wage effects by estimating the *trade* effect of NAFTA: the potential changes in imports and exports. They have made little effort to estimate, and have little ability to predict, the potential *investment* effect of NAFTA -- especially the potential for U.S. plants to *relocate*, particularly to Mexico, where wages average one-seventh the level of U.S. wages for comparable industries, and where labor and environmental regulations are less stringently enforced.

Perhaps the most important unanswered question is: *How many U.S. plants will relocate to Mexico as a result of NAFTA?* As a corollary, how many workers will be dislocated as a result of such plant relocations?

NAFTA is part of a bigger picture of the U.S. economic landscape. The larger picture shows that *with or without NAFTA*, U.S. manufacturing employment and real wages are declining. *With or without NAFTA*, some U.S. plants are relocating to Mexico. *With or without NAFTA*, jobs from U.S. direct investment around the world are "shifting" to Mexico: Between 1977 and 1990, more jobs from U.S. direct investment were created in *Mexico* than in all 13 Asia/Pacific countries *combined*. At the same time, jobs from U.S. direct investment in other countries, overall, were declining.

As a formal trade agreement between the United States and Mexico, NAFTA is considered by some to beam a more powerful signal to American businessmen that Mexico is a stable, advantageous, and profitable place to invest. In the opinion of some observers, NAFTA may be the equivalent of replacing an old dirt road with a superhighway. Such a superhighway could accelerate not only travel of exports and imports, but also, at least in the short run, plants relocating to Mexico.

Many observers agree that in the long run economies as whole benefit from trade. Some macroeconomists argue that, especially in the short run, there will be net job gains in the United States as capital exports to Mexico increase and new businesses are established in Mexico. Others argue that in the short run there may also be substantial job dislocations. To the extent that this is true, another important unanswered question is: How long will the short run last? How long will it take workers displaced by NAFTA to find new jobs? Will their new jobs pay wages and benefits comparable to those paid on their former jobs?

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FIGURES

NAFTA: EMPLOYMENT AND WAGE EFFECTS*

At least 20 studies have concluded that NAFTA will have little overall or net effect on U.S. employment and wages. That is, these studies argue, there will be *job gains* and *job losses*, but they will essentially balance each other out. There will be *wage gains* and *wage losses*, but they too will essentially balance each other out.

In contrast with this economic perspective is a human perspective: A *Wall Street Journal*/NBC news poll found that 37 percent of those polled, oppose NAFTA. Some industry workers feared a rush of jobs to Mexico, while producers feared unfair competition.[1]

There are some problems with the 20-plus studies. Using a variety of different methodologies and assumptions, they tend to estimate the *trade effect* of NAFTA: the potential changes in exports and imports. They have made little effort to estimate, and have little ability to predict, the potential *investment effect* of NAFTA -- that is, the potential for U.S. plants to relocate to Mexico. Those that do try to measure the investment effect, tend to *assume* a certain amount of investment, thereby *assuming* that which they are ultimately trying to *measure the effects of*.

TRADE EFFECTS: ESTIMATES FROM NAFTA STUDIES

What do these more than 20 studies show? For the most part, these studies find that NAFTA will have little effect on employment because both exports and imports will increase, slowly at first. In the long run, exports and imports should more or less balance each other out, most studies and economic theory argue.

U.S. *exports* will increase, many studies contend, because Mexico will increase its demand for U.S. *capital equipment* and *high-tech products*. Mexico will use these to build up its manufacturing base and infrastructure, and use these as inputs in its manufacturing processes. Currently about 70 cents of

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* Part of the CRS series *North American Free Trade Agreement: Issues and Implications*.

[1] Calmes, Jackie. In Heartland Races, Trade Agreement With Mexico is Proving to Be Unpopular. *The Wall Street Journal*, Politics & Policy, p A.-16, October 27, 1992.

THE MAQUILADORA PROGRAM

NAFTA's forerunner is the Mexican *maquiladora*, or "twin plant" program which began in Mexico in 1965 as part of Mexico's Border Industrialization Program. The maquiladora program is like a *mini-NAFTA* in that it encourages both trade with and investment in Mexico. However, there are a number of differences.

First, under the maquiladora program, trade and investment has been mostly limited to manufacturing assembly operations. NAFTA would make investment more secure in other manufacturing operations, as well as the agricultural, and service sectors.

Second, under the maquiladora program, plant site locations have tended to be limited to certain areas along the border and the interior of Mexico. In part, *border* industrialization was a requirement of the initial program, although requirements have since been relaxed. Early on, labor shortages along the border, and later high transportation costs, have probably limited more extensive development throughout Mexico. NAFTA would allow manufacturing plants to locate in other parts of Mexico, and is expected to encourage the development of infrastructure, including better roads.

Third, under the maquiladora program, certain tariff and nontariff trade barriers have been lowered. U.S. as well as other foreign businesses have been permitted to export components for assembly in Mexico, as long as the goods are then exported back out of Mexico. U.S. tariff provisions assess charges on return goods only on the value added in Mexico. Under NAFTA, tariff and nontariff trade and investment barriers are *further* reduced or eliminated over a period of 10 to 15 years.

every Mexican dollar spent on imports is spent on imports from the United States, these studies emphasize.

U.S. exports will *grow slowly*, these studies argue, because of the relatively small size of Mexico's economy compared to that of the United States. Mexico's gross domestic product (GDP) is about 5 percent that of the United States. In addition, the average Mexican output per capita (which some observers like to use as an estimate of average per capita income) is only about $3,550 compared with an average U.S. figure of about $22,000.[2]

U.S. *imports* will increase, other studies argue, because goods and services produced by Mexico could come back to compete with more expensive U.S. goods.

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[2] Organization for Economic Cooperation and Development (OECD) data.

Currently about one-quarter of U.S. exports shipped to Mexico go to maquiladora plants, and thus tend to return to the United States as finished goods.[3]

Job Effect from NAFTA

What do these studies estimate are overall job effects from NAFTA? Table 1 pulls out from the few studies which have ventured numerical estimates, predictions of the job gains and losses from NAFTA. As mentioned, these studies all estimate that the actual number of jobs gained or lost will be relatively small: The highest estimated job gains are up to 1.5 million through the year 2000 (DRI/McGraw-Hill). The highest estimated job loss from these studies is 900,000 lost jobs by the year 1999 (Economic Strategy Institute). Both the job *gain* and job *loss* estimates amount to fewer jobs than have typically been created in the United States in a single year (using net job creation during the ten year period 1980-1990 as an average).

Industry Winners and Losers

Which industries will gain jobs and which will lose them under NAFTA? Table 2 pulls out the major industry divisions and industry groups mentioned by the various studies as job winners and job losers. An industry that one study may identify as a job *loser* may be identified by another study as a job *winner*. As a result, many industries (often reflecting different sub-industries) appear on both job winner and job loser lists. Within manufacturing industry groups listed in bold-face type, job *gains* could come in areas of *parts production* and *high technology* products, whereas job *losses* could come in *assembly* and other *labor intensive* operations.

Geographic Winners and Losers

Which areas of the United States will gain jobs and which will suffer losses as a result of NAFTA? Table 3 pulls out from the many studies the State and regional job winners and job losers. As with the industry data, some areas (because of concentrations of different industries or sub-industries within them) appear on both job winner and job loser lists. For example, California, the South, and the Midwest are expected to experience both job gains and job losses. In *California*, gains could come in high-tech products and losses could come in some horticultural products. In the *South*, especially Texas, gains could come in various industries located along the border, and losses could come in some

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[3] U.S. Department of Commerce. Economics and Statistics Administration. Office of the Chief Economist. *U.S. Jobs Supported by U.S. Merchandise Exports to Mexico*, May, 1992, p. 6.

TABLE 1. Projected Overall Employment Changes from NAFTA

Source of estimate	Job Gain	Job Loss	Net Gain or Loss
International Trade Commission	NA	NA	NA
Institute for International Economics (10 years)	325,000	150,000	+175,000[1]
DRI/McGraw-Hill (per year through 2000)	160,000-221,000[2]	NA	NA
Clopper Almon (5 years)	63,400	21,100	+ 42,300
KPMG Peat Marwick (at least 10 years)	27,400	29,800	2,400
Economic Policy Institute (by the year 2000)	550,000	550,000	0[3]
Stern, Deardorff, and Brown (over 10 years)	NA	132,380[4]	NA
Economic Strategy Institute (in 1999)	225,000-264,000	400,000-900,000	-175,000--636,000[5]

Sources: U.S. International Trade Commission. *Economy-Wide Modeling of the Economic Implications of a FTA with Mexico and a NAFTA with Canada and Mexico.* U.S. ITC Publication 2516, May 1992; Institute for International Economics. *North American Free Trade Agreement Issues and Recommendations*, by Gary C. Hufbauer and Jeffrey J. Schott, Washington, D.C. 1992; Interindustry Economic Research Fund, Inc. *Industrial Effects of a Free Trade Agreement Between Mexico and the USA*, by Clopper Almon, 1991; KPMG Peat Marwick Policy Economics Group. *The Effects of a Free Trade Agreement Between the U.S. and Mexico.* Economic Policy Institute. *The Effect of George Bush's NAFTA On American Workers: Ladder Up or Ladder Down?* by Jeff Faux and Thea Lee; National Commission on Employment Policy. *The Employment Effects of the North American Free Trade Agreement: Recommendations and Background Studies*, Oct. 1992; and Economic Strategy Institute. *The Good News or the Bad News. Free Trade With Mexico: The Potential Economic Impact*, 1991.

NA: Not available. No numerical estimates are included in this report. The International Trade Commission estimates that overall, NAFTA will have little or no effect on employment levels in the United States, but could cause some shifts in employment.

[1] Schott, Jeffrey J. North America Integrates. International Economic Insights. Institute for International Economics, Sept.-Oct., 1992, p. 53.
[2] Estimates by Data Resources Incorporated (DRI)/McGraw-Hill. Included in National Commission on Employment Policy Report.
[3] The model used assumes full employment, so those who lose high-wage jobs are automatically assumed to be reemployed, but the effect of the shift is reflected in a 50 percent wage cut.
[4] Estimate by Robert M. Stern, Alan V. Deardorff, and Drusilla K. Brown. Included in National Commission on Employment Policy report.
[5] The two sets of numbers represent a high growth and low growth strategy. The high growth strategy includes an estimate of 12,990 auto workers, 62,980 auto parts workers, 52,650 radio and TV manufacturers, 21,600 manufacturers of telecommunications equipment, 16,000 manufacturers of other electrical equipment, and 9,900 machinery manufacturers.

TABLE 2. Some Projected Industry Job Winners and Losers

WINNERS	LOSERS
*AGRICULTURE grains, oilseeds, corn, sorghum, soybeans, and livestock	*AGRICULTURE sugar, fresh fruits and vegetables (especially citrus, winter, and manually harvested crops)
	CONSTRUCTION
MANUFACTURING	MANUFACTURING
Food processing alcoholic beverages, canned and processed beans and potatoes and similar items	**Food processing**: tuna canning
textiles and apparel: components for Mexican assembly plants	**textiles and apparel**: knitting mills and some assembly operations
chemicals: petrochemicals, chemical intermediates, pharmaceuticals	**chemicals**: medicines
stone and clay: cement	* **stone, clay and glass**: especially glassware
primary and fabricated metals: high tech steel, structured wire products, and high value sheet metal products	**primary and fabricated metals**: high value specialty steel, plate, bar, rod, and tubular steel, and nonferrous metals
* **machinery**: heavy machinery, machine tools, construction equipment	**machinery**: home appliances
* **electronics**: office equipment, high tech electronics, TV components, semi-conductors	* **electronics**: consumer electronics including radio and TV
* **transportation equipment**: autos, auto parts, and aerospace equipment	* **transportation equipment**: autos and auto parts
paper products	**furniture**
rubber and plastic products	
measuring instruments: medical devices	
TRANSPORTATION AND COMMUNICATIONS transportation services and telecommunications	TRANSPORTATION motor freight, especially trucking
SERVICES banking and financial services, legal services, accounting services, insurance, and computer software engineering	SERVICES hotels, motion pictures, amusements

* Industries of projected greatest absolute or percentage employment change.
Source: Compiled from the following reports on macroeconomic models and studies: International Trade Commission; Clopper Almon; KPMG Peat Marwick; Data Resources Incorporated; Economic Strategy Institute; and Brown, Deardorff and Stern.

TABLE 3. Some Suggested Regional Job Winners and Losers

WINNERS	LOSERS
West South Central region, dominated by the **Texas** economy. Texas exports represent about 40 percent of U.S. exports to Mexico, with businesses in many industries along the border region anticipating growth. (DRI)	**California, Florida,** and some of the **other southern States** could face considerable competition from Mexico, in horticultural products, especially citrus crops and winter vegetables that are manually harvested. (ITC)
Michigan, Ohio, Illinois, Wisconsin, and **Indiana** , producing heavy industrial goods, and **California, Oregon,** and **Washington,** and other States producing high tech products could experience export-related job gains. (Clopper Almon)	**East North Central** and **Midwest** producers of autos and auto parts could face pressure to relocate production facilities in Mexico. (ITC)
Pacific Southwest: California, Arizona, and **New Mexico** currently represent about 18 percent of total U.S. exports to Mexico, with close geographic proximity to and existing extensive export activity with Mexico. California alone represents about 14 percent of total U.S. exports to Mexico. (DRI)	**Southeast** and **New England** manufacturers with labor intensive operations may be less likely to experience growth because of investment in Mexico in plants producing competing products. (DRI)
South Atlantic: could also gain in the medium term due to its broadly diversified industrial base and large trade and investment links with Mexico. (DRI)	

Source: Compiled from the following reports on macroeconomic models and studies: International Trade Commission (ITC), Data Resources Incorporated (DRI), and Clopper Almon. Full references for these sources are listed in the footnotes to table 1 except for the DRI study: DRI/McGraw-Hill. *The North American Free Trade Agreement and Its Implications*. September 1992.

horticultural products that are now manually harvested. In the *Midwest*, gains are expected to come in industries producing high-tech and heavy industrial goods, while losses could come in auto and auto parts production.

Wage Effect from NAFTA

What are expected to be the wage effects from NAFTA? Those few studies that propose to examine wages tend to find very little effect from NAFTA. Two exceptions to this pattern are as follows: The International Trade Commission (ITC) study predicts that *unskilled* workers in the United States could suffer a slight decline in real income. Some observers argue that the ITC's definition of "unskilled" labor includes about 70 percent of the U.S. labor force whose education stops in the 12th grade. Others argue that unskilled labor is limited more closely to some workers in service occupations and blue-collar occupations (i.e., operators, fabricators, and laborers) who together constitute less than 30 percent of the employed workforce. The ITC study also predicts that as a result of NAFTA, *skilled* workers could benefit more from lower prices and thus enjoy increased real income.

Another study, published by the National Bureau of Economic Research (NBER), estimates that NAFTA could raise the earnings of the professional/ technical workforce by as much as $6,000 per year and lower the earnings of other workers by about $1,800. Although the author indicates that the exact nature of the wage change is uncertain because of so many variables, "Earnings reductions on the order of $1,000 per year . . . seem very plausible."[4]

THE BIGGER PICTURE

NAFTA, if approved, would be but one factor in a larger picture. In the overall picture of U.S. domestic and international trade, many factors blend to effect continuing changes on the U.S. economic landscape. These changes have occurred in the absence of NAFTA, but in the presence of increased international competition generally, since the late 1970s. With or without NAFTA, the following trends are expected to continue, at least in the near future:

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[4] Leamer, Edward E., National Bureau of Economic Research. *Wage Effects of a U.S.-Mexico Free Trade Agreement*. Working Paper No. 3991, February 1992, p. 46.

The Decline of U.S. Manufacturing Employment and Real Wage Levels[6]

With or without NAFTA, U.S. manufacturing employment and real (inflation-adjusted) wage levels are declining. Manufacturing employment levels were at their peak in 1979, when 21 million workers constituted nearly one-quarter of the employed workforce. By 1992 their ranks had shrunk to less than one-fifth of the working population in the United States.

The extent to which manufacturing and real wages have declined in a little over a decade is evident in these figures: Between 1979 when manufacturing was at its peak and 1992, manufacturing employment has declined by nearly 14 percent; manufacturing production employment has declined by an even greater 18 percent; and real manufacturing production wages have dropped 10 percent.[6]

In some cases during the 1980s, wages dropped because American corporations demanded and got real wage concessions from their workers, sometimes threatening them with plant relocations. Within manufacturing, declines in employment levels occurred primarily among unskilled blue-collar operators, fabricators, and laborers.[7]

With or without NAFTA, U.S. manufacturing employment and/or wages may continue to decline for a number of reasons. These include: international competition, (especially competition with lower-wage countries); domestic competition (especially by companies that are also trying to compete internationally); and continued automation of U.S. manufacturing operations as technology advances.

The Continuation of U.S. Investment and Job Creation in Mexico

With or without NAFTA, the United States is creating jobs in Mexico. U.S. Department of Commerce data report that overall, U.S. investment in Mexico has created a total of about 330,000 jobs, not all of them in maquiladora plants. According to both Department of Commerce and Mexican data, electronics and transportation manufacturing are the two largest industries supported by U.S.

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[6] Data source: U.S. Department of Labor. Bureau of Labor Statistics. *Employment, Hours, and Earnings, United States, 1909-90, Volume 1*, March 1991, and preliminary unpublished data for 1992.

[6] Real production wages, measured as average hourly earnings, peaked in 1978, a year before manufacturing employment peaked.

[7] U.S. Department of Labor. Bureau of Labor Statistics. *Employment and Earnings*, January 1984, table 1, p. 14, and January 1992, table 20, p. 183.

investment in Mexico.[8] Whether or not NAFTA is approved by Congress, investment from the United States will continue to create jobs in Mexico and in other parts of the world. This assumes continuing political stability in receiving countries.

Some observers point out that the driving force for investment abroad is primarily to expand local markets, and only secondarily to save costs in producing goods targeted for the American market. This perspective is supported by the fact that currently 70 percent of the sales of U.S.-owned companies in Mexico are made to the Mexican market; only 26 percent are returned to the U.S. market.[9] In fact, however, shifting U.S. investment may serve *both* objectives most efficiently.

The Relocation of Some U.S. Plants to Mexico

With or without NAFTA, it is expected that there will continue to be U.S. plant relocations to Mexico. Some of the jobs created from U.S. investment in Mexico have come from U.S. plant relocations to Mexico. However, no Federal agency collects comprehensive data on plant relocations (to Mexico or elsewhere).[10] The Resource Center, a privately-funded nonprofit organization in Albuquerque New Mexico, has been working for about a year to document some U.S. plant relocations to Mexico in an effort to provide data for the current debate on NAFTA.[11]

To date, the Resource Center has been able to positively identify and document 198 plant relocations to Mexico, displacing nearly 80,000 U.S. workers (see figure 1). Based on preliminary research on an additional list of possible plant relocations, the Resource Center estimates that these 198 plants probably represent one-third to one-half of all U.S. plants which have relocated to Mexico.

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[8] After that, the sources disagree somewhat. American Chamber of Commerce data from Mexican sources show that maquiladora plants manufacturing *apparel* and *furniture* have the next greatest numbers of workers. U.S. Department of Commerce data show that the *chemical* industry supports the next greatest number of jobs from U.S. direct investment in Mexico.

[9] U.S. Department of Commerce. Bureau of Economic Analysis. *U.S. Direct Investment Abroad, Operations of U.S. Parent Companies and their Foreign Affiliates*. 1983. For further information see U.S. Library of Congress. Congressional Research Service. *Mexican Affiliates of U.S. Parent Companies* by M. Angeles Villarreal, July 9, 1992. (CRS Report No. 92-552E)

[10] For more information see: U.S. Library of Congress. Congressional Research Service. *Plant Closings, Mass Layoffs, and Worker Dislocations: Data Issues*, by Mary Jane Bolle, March 29, 1993. (CRS Report No. 93-355E)

[11] The Resource Center is funded by the John D. and Catherine T. MacArthur Foundation and the Norman Foundation.

If this supposition is correct, perhaps as many as 160,000 to 240,000 U.S. jobs may have been lost from plant relocations to Mexico, many of them since 1986.[12] Of all U.S. plant relocations to Mexico identified by the Resource Center, most of them have occurred in the industries of electronics (25,000 workers), transportation production (20,000 workers), and apparel manufacturing (17,000 workers).

Most of the plant relocations to Mexico identified so far originate from California, New England and down the Atlantic seaboard, or the East North Central region of the United States (Illinois, Ohio, Wisconsin, Indiana, and Michigan). These relocations represent jobs lost *directly* from plant relocations. No estimates are available on jobs lost *indirectly* from plant relocations to Mexico.

A major difficulty in tracking *plant relocations* is that plant relocations often do not occur as a plant closing in the United States and a simultaneous opening in another location. Plant relocations take many forms: Often a plant in the United States will slowly lay off workers over a period of years in the United States and slowly build up employment over a period of years in another location. Sometimes a plant in the United States will close, and after a waiting period which could be as long as a year or two, a related plant will open in another location. The name of the new plant is not always identifiable with the parent company. In Mexico, an additional obfuscating practice is that "shelter operations" apparently can shield the identity of the parent U.S. company and make a U.S.-owned maquiladora appear to be Mexican-owned.[13] [14]

The Shifting of Jobs from Various Countries Around the World to Mexico

With or without NAFTA, manufacturing jobs supported by U.S. direct foreign investment are in effect "shifting" from many other areas of the world to Mexico, especially in two industries: electronics and transportation equipment. Since 1977, more manufacturing jobs from U.S. direct investment

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[12] Before 1986 data are scarce, in part, because of data collection problems.

[13] From testimony by Tom Fairfax, former shelter operator, at hearings held by the Senate Committee on Governmental Affairs, Subcommittee on Oversight of Government Management on April 1, 1993.

[14] Some macroeconomists argue that there is no clear evidence that foreign investment is a substitute for domestic investment. They contend that the trade-off may not be in employment, but rather in capital.

FIGURE 1. Some U.S. Plant Relocations to Mexico
198 U.S. Sites

Data source: The Resource Center, Albuquerque, New Mexico.

have been created in *Mexico* than in ***any other country*** in the world (see figure 2).[16]

Furthermore, more manufacturing jobs from U.S. direct foreign investment have been created in *Mexico* than in *all 13 Asia/Pacific countries combined*. (Another way of looking at this is to argue that Mexico is gaining greater proportions of labor intensive jobs, whereas some jobs supported by U.S. direct investment in other countries are becoming more capital intensive.)

Between 1977 and 1990, nearly 160,000 jobs were created in Mexico from U.S. direct foreign investment. During that time, Mexico's proportion of worldwide jobs supported by U.S. direct foreign investment doubled from 5 to 10 percent (see figure 3).

With or without NAFTA, this trend in U.S. job creation in Mexico is expected to continue, and many expect it will expand to other developing countries in the Western Hemisphere. Both the total number of jobs *created* in Mexico by U.S. direct investment (about 330,000) and the number of jobs *estimated as lost* in the United States from plant relocations to Mexico (up to about 240,000) are under half a million -- about the number of jobs normally created in the United States (on average between 1980 and 1990) in about three months. The perspective on this small number changes somewhat, however, when one realizes that the majority of workers in jobs *created* in Mexico (about 330,000, as mentioned) and jobs *documented as lost* to plant relocations from the United States (80,000) represent just two industries: electronics and transportation (especially auto) manufacturing.

It should be emphasized, however, that these figures on U.S. investment patterns in Mexico *in the absence of NAFTA* are arguably of little use in predicting future investment behavior *under NAFTA*.

The Creation of Jobs from U.S. Exports to Mexico

Exports are becoming an increasingly important part of the U.S. economy. In the last 20 years, the value of exports to the U.S. economy doubled.[16] By

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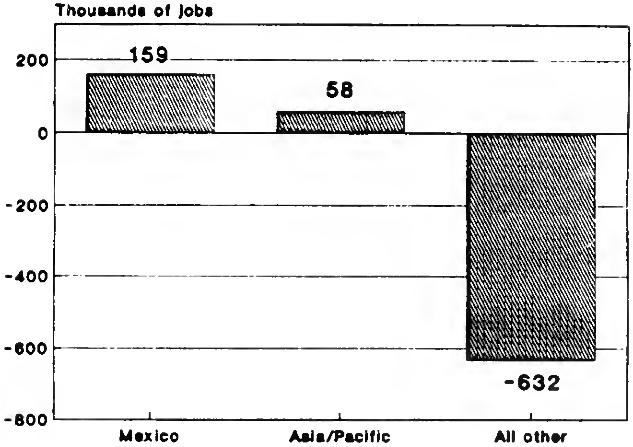
[16] U.S. Department of Commerce. Economics and Statistics Administration. Bureau of Economic Analysis. *U.S. Direct Investment Abroad*. Various surveys report data for 1977, 1982, 1989, and preliminary data for 1990. All data reported are for majority-owned nonbank foreign affiliates of nonbank U.S. parents.

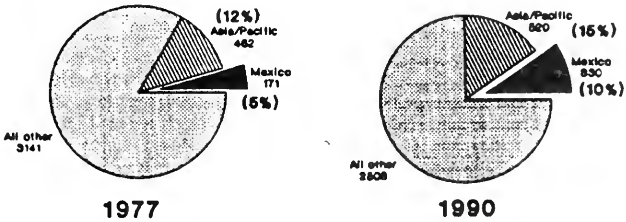
[16] Between 1970 and 1990, the value of exports increased from about 5.5 to 11 percent of gross domestic product. Data are taken from *Economic Report of the President*, 1992, p. 307 and 319.

FIGURE 2. Worldwide Manufacturing: Employment Change from U.S. Investment, 1977-1990



Source: U.S. Department of Commerce, Bureau of Economic Analysis (BEA). *U.S. Direct Investment Abroad* Surveys for 1977 and 1990. Majority-owned nonbank affiliates of nonbank U.S. parents.

FIGURE 3. Worldwide Manufacturing: Employment from U.S. Investment Abroad, 1977 and 1990
(Thousands of workers)



Source: U.S. Department of Commerce, Bureau of Economic Analysis (BEA). *U.S. Direct Investment Abroad*. Surveys for 1977 and 1990. Majority-owned nonbank affiliates of nonbank U.S. parents.

1990 more than 7 million jobs in the United States were supported by merchandise exports.[17]

U.S. jobs supported by exports to *Mexico* constitute but a small percentage of export-related jobs. Currently, less than 8 percent of all U.S. jobs supported by merchandise exports are supported by exports to Mexico.[18]

It should be emphasized that increasing export growth is no panacea for saving manufacturing wages. Overall, real wages for production workers have declined in both *export* and *import* industries (each taken as a group) between 1978 (when real wages for production workers in manufacturing were at their peak) and 1991 (most recent data at the industry level). Real wages have fallen slightly more in the aggregate group of manufacturing industries with net *export* growth than in the aggregate group of industries with net *import* growth.[19]

A Threat to U.S. Jobs from Imports from Mexico?

Are U.S. jobs being threatened by imports from Mexico? Nearly one-fourth of all U.S. jobs providing exports to Mexico, provide supplies for Mexican

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[17] This number (referring to full-time equivalent jobs) is up from 5 million in 1983. U.S. Department of Commerce. Economics and Statistics Administration. Office of the Chief Economist. *U.S. Jobs Supported by Merchandise Exports*, April 1992.

[18] In 1990, 538,000 U.S. jobs were supported by exports to Mexico. *U.S. Jobs Supported by Merchandise Exports to Mexico*, op. cit. (Supplement to the report mentioned above.) This number represents approximately two jobs indirectly supporting exports for every job directly supporting exports. In 1990, each billion dollars worth of goods and services exported to Mexico supported an estimated total of 19,600 jobs in the United States.

[19] Real wages have declined 15 percent in manufacturing industries with net export growth and 12 percent in industries with net import growth. In making the calculations, two-digit manufacturing industries were sorted into two categories: those with net growth in the constant-dollar value of *imports* over the period 1978-1991 and those with net growth in the constant-dollar value of *exports*, using Department of Commerce data on the value of exports and implicit price deflators for the value of exports and imports from *Economic Report of the President*, January, 1993, p. 353. Real wages for production workers within each industry over the 13-year period were calculated using Department of Labor, Bureau of Labor Statistics employment and wage data for production workers from *Employment, Hours, and Earnings, United States, 1909-90, Volume 1*, op. cit., and its update. Nominal wages for 1978 were deflated by the consumer price index for major expenditure classes for all urban consumers, in the *Economic Report of the President*, January 1993, p. 411. Resulting figures were then weighted by employment for each industry.

maquiladora plants.[20] Maquiladora products tend to come back to the United States as imported products. There are two ways of viewing this phenomenon. One is to see maquiladora imports as competing with U.S. goods; the other is to see maquiladora imports into the United States as supporting U.S. jobs which produce for export their component parts.

Between 1979 and 1990, more than a million U.S. workers received Trade Adjustment Assistance benefits. These workers were certified as displaced because imports *contributed importantly* to their job dislocations; there is no indication of how many were dislocated from their jobs because imports from *Mexico* contributed importantly. In addition, there are no estimates on how many U.S. workers were dislocated from their jobs because imports from Mexico contributed *somewhat*.[21]

HOW MIGHT THESE TRENDS BE FURTHER AFFECTED BY NAFTA?

NAFTA may be the focus of considerable *fear* because of its unknown potential to stimulate further declines in manufacturing employment, further declines in real manufacturing wages, and further plant relocations to Mexico. Nevertheless, statistics show that trade with Mexico *so far*, actually may have played only a *small part* in a large and continuing downward wage and employment trend in U.S. manufacturing.

On the other hand, a recent *Roper* poll in the *Wall Street Journal* reports that 40 percent of U.S. manufacturers have indicated they are inclined to move *some* manufacturing to Mexico in the next few years.[22] The extent to which employers will relocate their manufacturing operations to Mexico may be the most important factor and *the big unknown* in trying to estimate the employment and wage effects of NAFTA.

The outside estimate for the number of U.S. jobs potentially threatened by NAFTA is included in a study released by the Manufacturing Policy Project, directed by trade consultant Pat Choate. The report, entitled *Jobs at Risk: Vulnerable U.S. Industries and Jobs Under NAFTA*, estimates that almost a third of all manufacturing jobs -- 5.8 million -- may be vulnerable to dislocation from either investment shifts (relocation to Mexico) or trade competition (low-wage competition from Mexico-based facilities).[23]

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[20] *U.S. Jobs Supported by U.S. Merchandise Exports to Mexico.*, op. cit, p. 6.

[21] U.S. Department of Labor, Office of Trade Adjustment.

[22] Anders, George. Heading South. U.S. Companies Plan Major Moves into Mexico. *The Wall Street Journal*, Sept. 24, 1992. Special Report, p. R-1.

[23] In aiming to count U.S. companies which are susceptible to relocation to, or trade competition from Mexico, the study targets U.S. businesses with the same labor content (20 percent or more) as did the now-defunct (continued)

The wave of recent investment in Mexico which was characterized by new U.S. *manufacturing assembly* plant investment and by plant relocations to Mexico as part of the maquiladora program, may be considered the first wave of U.S. investment in Mexico. New investment and relocation waves representing other types of industries, such as manufacturing supplier industries, agricultural operations, and certain services production facilities might follow.

Strategic investment decisions made by each employer will determine the extent to which manufacturing jobs go to Mexico. Those who argue that the investment effects of NAFTA will *benefit* U.S. jobs and wages and create employment and wage opportunities, point out that the U.S. labor force is aging, with the leading edge of the "baby boom" now nearing 50. Opening up trade gates further could encourage a shifting of low-wage labor intensive operations to Mexico, thus economizing on potentially scarce labor in the United States. Americans would thereby be free to specialize more in high-wage, high-tech jobs at increasingly automated production facilities.

Among those who argue that the potential investment effects of NAFTA constitute a *detriment* to U.S. workers, some view Mexico's labor force (about 25 percent the size of the U.S. labor force and growing at about 3 percent per year)[24] as a potential threat ready to assume U.S. jobs transferred to Mexico. They argue that Mexico's large unemployed population (up to 20 percent in rural areas) may amount to a ready army of workers willing to work for wages that average about one-seventh the level of U.S. wages in comparable factories. Productivity levels in Mexican maquiladora plants, which reportedly approximate productivity levels in comparable plants in the United States, could further encourage plant relocation. Some of the United States' *highest*-wage jobs, in the auto manufacturing sector, are going to Mexico, some observers argue. Once that happens, the United States simply does not have a lot of *other* high-wage manufacturing jobs for these displaced workers to assume, such observers point out.[25]

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[23] (continued) AmeriMex fund. The controversial AmeriMex limited partnership was created by a New York investor and the treasury secretary of the Mexican state of Yucatan for the purpose of buying established U.S. companies and moving a portion or all of the manufacturing operations to Mexico "to take advantage of" savings in labor costs. (The AmeriMex fund also had two other criteria for selecting companies. They had to have moderate to good growth, and low to mid-technology.) The Choate study is essentially a count of businesses listed in the Census Bureau's Annual Survey of Manufactures for which total payroll (i.e., labor costs) constituted 20 percent or more of the total value of shipments.

[24] International Labour Organization. *Yearbook of Labor Statistics*, 1982 and 1993.

[25] Dislocated manufacturing workers in the auto sector who lost jobs between January 1985 and January 1990, who were able to find new employment, took an average 29 percent hourly wage cut. Source: Unpublished data from the Department of Labor, Bureau of Labor Statistics *Displaced Worker* Survey.

Which side is right -- those who view NAFTA as an opportunity or those who view it as a threat? Arguably, both are. The important questions are: Over how long a period of time will U.S. plants be relocating to Mexico? Will dislocated manufacturing workers be able to shift into comparable or higher paying jobs? If so, how long will this transition take? Will it happen in the working lifetime of those recently dislocated? It is important to realize that NAFTA might merely accelerate a long-run trend toward fewer manufacturing jobs which began in 1980. However, even without NAFTA, the United States still would lose manufacturing jobs -- if not to Mexico, then to somewhere else.

WHAT POLICIES ARE NEEDED?

Economic theory teaches that in the long run free trade tends to benefit economies as a whole. In addition, macroeconomists tend to agree that in the long run, as a result of free trade, winners tend to win more than losers lose. However, in the transition, there can be very real losses. With the implementation of NAFTA, more businesses would be expected to move to Mexico, both to gain access to local markets and to take advantage of Mexico's lower wages and less stringent enforcement of labor and environmental regulations, to the extent that these continue.

However, NAFTA as a cause of plant relocation is only one part of a larger problem. Dislocation generally from manufacturing jobs has been a fact of life in the United States for more than a decade. Linking together data from five separate Department of Labor *Displaced Worker* surveys shows that overall, between 1978 and 1992, a U.S. manufacturing worker had a 49 percent chance of being dislocated from his or her job because of plant relocation, abolition of position or shift, or slack work.[26]

Among those workers who have been dislocated from their jobs at any time during the five-year periods covered by the various *Displaced Worker* surveys, between 62 and 70 percent had found reemployment by the end of that five year period.[27] Among those who had not found reemployment, some had retired, and some dropped out of the labor market.

Apparel and *auto* manufacturing are two industries affected by plant relocations to Mexico whose workers encountered the most difficulty in finding

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[26] This calculation was made from unpublished data from five consecutive Labor Department surveys, each covering overlapping 5-year periods, for a total of 25 years. The five surveys were linked (added) together to cover the 13-year period January 1978-92 and represent the sum of: 13/25 or .52 x the total number of workers reporting displacement in each survey.

[27] When the five years includes a recession, the average has been 62-63 percent of all workers gaining reemployment within the five year period. When the five years does not include a recession, the average has been about 70 percent that gain reemployment within the five year period.

new jobs or jobs at comparable wages. *Apparel* industry workers who were dislocated for any cause between 1985 and 1990 (before the most recent recession began) had a lower than average percent of reemployment by 1990 (61 percent as compared with a 73 percent average). Among displaced *auto* industry workers, the 62 percent who found reemployment tended to suffer a substantial loss in pay, with new wages averaging only 72 percent of their old wages.

The unknowns with NAFTA leave a lot of questions unanswered. Among dislocated workers in the United States, since 1977, approximately 10 percent have been over 55 and 25 percent have been over 45.[28] The leading edge of the baby boom generation, now in their late 40s, is entering a time when reemployment at previous wage levels may be difficult if their jobs move to Mexico. This group is also entering a time when skills investment may be hard to come by, since re-education and re-training might focus more intensely on younger workers.

Certainly, this suggests that more examination is needed of ways to deal with any NAFTA-related dislocation. One challenge is how to re-educate and assimilate displaced older workers. Another challenge which addresses and also goes beyond NAFTA is how to educate younger workers so that they can compete in what many see as the new world economy characterized by swelling proportions of contingent or temporary jobs, and "virtual corporations" which are able to quickly change the size, shape, and location of their workforces in response to changing product demands.

CONCLUSIONS

According to more than 20 models and studies, the aggregate *employment* effects of NAFTA (primarily the *trade* effects, from changes in exports and imports) are expected to be minimal. The total U.S. job gain or job loss over 10 years or the total implementation period for NAFTA is expected to be smaller than the number of jobs created normally in the United States in a single year (using 1980-1990 as an average).

Few studies estimate the potential effect of NAFTA on real wages. Those that do, estimate that while real wages could rise for certain groups of highly skilled workers, they could fall for unskilled workers.

In the absence of NAFTA, but in the presence of increases in international competition since the late 1970s, certain trends have been ongoing. With or without NAFTA, these trends are expected to continue:

- U.S. manufacturing employment and wage levels have declined. For manufacturing production workers, real wages have declined 10

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[28] *Displaced Worker* survey, unpublished data, *op. cit.*

percent and employment has declined 18 percent since their peaks in 1978-79.

- The United States is creating manufacturing jobs in Mexico from U.S. direct investment there. So far, it has created 330,000 such jobs. Since 1977, the United States has created more manufacturing jobs in Mexico than in any other country in the world. In fact, it has created more manufacturing jobs in Mexico than in all 13 Asia/Pacific countries combined. By comparison, world-wide, manufacturing jobs from U.S. direct investment have declined 20 percent between 1977 and 1990. However, data are not yet available to reflect any investment surge that might have occurred in Europe in the early 1990s.

- The United States has relocated plants to Mexico. The Resource Center in Albuquerque, New Mexico estimates that as many as 240,000 workers (only 80,000 of them actually documented) may have been displaced directly from plant relocations to Mexico.

- The number of jobs producing exports to Mexico is small but growing, having doubled between 1983 and 1990 to 538,000. This represents about 7.5 percent of all U.S. jobs directly or indirectly involved in producing goods and services for export (which altogether constitute about 7 percent of the employed population).

With or without NAFTA, these trends are expected to continue. NAFTA could accelerate U.S. investment in and plant relocation to Mexico. It could also stimulate plant creation and expansion in the United States, especially in supplier and high-tech industries. Because of potential adjustment problems among displaced workers, of greatest concern to some policymakers tends to be the potential for dislocation from NAFTA.

The extent to which businesses could relocate in Mexico is the big unknown with NAFTA. A Roper poll reported in the *Wall Street Journal* found that 40 percent of employers polled were inclined to move some manufacturing to Mexico in the next few years. As an outside figure, a study released by trade consultant Pat Choate estimates that as many as 5.8 million U.S. manufacturing jobs, (almost a third of all manufacturing jobs) could be at risk from plant relocations to, or import competition from, Mexico.

In the long run NAFTA is expected to benefit all three trading partners in North America. However, during the transition from the near future to the long run, many adjustments and transitions may occur. It is the unknown extent of this potential that has many observers concerned.

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UNITED STATES DEPARTMENT OF COMMERCE
Bureau of the Census
Washington, DC 20233-0001

OFFICE OF THE DIRECTOR

MAY 5 1993

MAY 18 1993

The Honorable Carl Levin
United States Senate
Washington, DC 20510-2202

Dear Senator Levin:

As you requested during my testimony April 28, I am enclosing articles from the March and July 1962 issues of the Monthly Labor Review summarizing studies done by the Bureau of Labor Statistics (BLS) of the impact of foreign trade on domestic employment.

The July 1962 article (on page 772) estimates that one million workers would have been required in 1960 to produce in the United States the equivalent of finished manufactures and other imported products considered competitive with domestically produced goods. The article cautions that the hypothetical figure of one million does not represent jobs lost by American workers as a result of imports in 1960.

In the late 1960's, BLS discontinued developing employment estimates related to exports and imports primarily due to technical difficulties with respect to the import employment estimates. One of the difficulties involved the substitutability of an imported for a domestic product, another involved lack of data on employment associated with producing the specific products of an industry as opposed to the existing data which relates employment in an industry to all of the goods or services produced by that industry. The Census Bureau continues to estimate employment related to U. S. exports; the latest data are for 1989.

For further information on the BLS studies, you may contact Ronald E. Kutscher, Associate Commissioner of the Bureau of Labor Statistics on (202) 606-5700. For information on the current Census program, please contact John Govoni, Acting Chief, Industry Division on (301) 763-7666.

Sincerely,

Charles A. Waite

CHARLES A. WAITE
Associate Director
Bureau of the Census

Enclosures

Employment in Relation to U.S. Imports, 1960

EDITOR'S NOTE.—*This article is the second of a series based on a continuing study of the impact of foreign trade on domestic employment by the Bureau of Labor Statistics. It summarizes a report of the same title which was issued in April 1962. The previous article, on domestic employment attributable to U.S. exports in 1960, appeared in the March 1962 issue of the Review.*

ACTIVITIES connected with U.S. imports of $15 billion in 1960 produced an estimated 941,000 jobs in this country, the Bureau of Labor Statistics found in a recent study. These jobs, together with the 3.1 million that were estimated in an earlier study[1] to result from U.S. exports, yield a total of approximately 4 million jobs in activities attributable to U.S. foreign trade in 1960. Thus, the Nation's foreign commerce accounted for more than 7½ percent of its private employment in that year.

The estimate of 941,000 import-related jobs is an approximation of the number of people employed in transporting, distributing, and processing imports. A second estimate—given later in this article—attempts to answer the hypothetical question, "How many U.S. jobs would be required to produce in the United States those imports which are considered competitive with American goods?"

Developing both estimates presented difficult problems of concept and measurement because of the dual nature of the impact of imports on the U.S. economy. Imports range from those products either not produced at all in the United States or produced in quantity insufficient to satisfy the country's economic needs to those which might be considered directly competitive with U.S. products of the same categories.

In this study, the classification of imports is that developed by the U.S. Department of Commerce, Bureau of International Programs, which separates imports into two categories, "supporting" and "competitive." Supporting imports are defined as those raw materials and semimanufactured products which furnish more than 75 percent, or less than 5 percent, of the total U.S. supply, and those which do not meet these percentage criteria but which have been judged essential to U.S. industry. Supporting imports account for about three-fifths of the foreign port value of imports. Competitive imports are all finished manufactures and all other products which do not satisfy the criteria established for supporting imports and thus are considered competitive with domestically produced goods.

The competitive classification of all finished manufactures includes some products that may not be competitive; for example, some of the finer linens, the unique types of sports cars, and goods made abroad under exclusive foreign patents fall within this group. On the other hand, some raw materials and semimanufactured commodities that compete with American products are included in the supporting imports category because they minimize American producers' material costs and thus promote domestic economic efficiency and growth. Examples are petroleum, iron ore, and softwood lumber. The lack of uniformly accepted, clear-cut criteria for characterizing imports should, therefore, be kept in mind in interpreting these estimates.

Employment Attributable to Imports

In 1960, an estimated 941,000 workers were supported by activities connected with all U.S. imports, which were valued at $15 billion. (See table 1.) By far the largest group—some 619,000—worked in establishments that were engaged in processing imported raw materials and semimanufactures. This figure is limited to direct employment in the first-stage processing of such imports. The remainder were employed in transporting, handling, and distributing imports from foreign ports through U.S. ports to domestic factories that process imported raw materials and to wholesalers that import and distribute finished manufactures; furnishing fuel and supplies to the trade and transportation sectors; and replacing plant and equipment used up in all stages of handling imports.

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[1] *Domestic Employment Attributable to U.S. Exports, 1960* (January 1962) for summary, see *Monthly Labor Review*, March 1962, pp. 277–278.

TABLE 1. ESTIMATED EMPLOYMENT IN THE UNITED STATES ATTRIBUTABLE TO IMPORTS, 1960

Item	Employment (thousands)
Total	941.2
Transportation to and unloading at U.S. port of entry [1]	26.3
Cargo insurance [2]	3.0
Domestic transportation [3]	67.4
Wholesale trade [4]	98.2
Supplying industries [5]	60.4
First-stage processing of "supporting" imports [6]	618.7
Replacement of plant and equipment consumed [7]	67.2

[1] Transporting imports on, and unloading them from, U.S. planes, trains, and flag-flying ships.
[2] Insurance of imports by U.S. insurers.
[3] Transportation from port of entry to processing factory or to distributing wholesaler.
[4] Distribution of both supporting and competitive imports.
[5] Furnishing fuel and supplies to U.S. industries engaged in the transportation, insurance, and distribution of imports.
[6] Raw materials and semimanufactured products, as classified by the U.S. Department of Commerce, Bureau of International Programs; see text for definition.
[7] Employment required to replace plant and equipment used up in the course of U.S. transportation, insurance, and distribution of all imports and in first-stage processing of supporting imports.

U.S. Jobs and Competitive Imports

In estimating the number of jobs required to produce in the United States those imported goods considered competitive with domestic goods, the BLS used the competitive import classification of the U.S. Department of Commerce. The value of such imports in 1960 was approximately $6.8 billion, landed at U.S. ports.

To produce, in the United States, the equivalent of these finished manufactures and other imported products considered competitive with domestically produced goods would require, the BLS estimated, about 1 million workers (table 2). This estimate includes direct employment of about 440,000, of which three-fourths would be in manufacturing establishments. Indirect employment of some 475,000 would be required for the production and transportation of raw materials, component parts, and supplies to the producing plant. Nearly 75,000 jobs would be attributable to the replacement of plant and equipment used up in the preceding stages. In addition, about 80,000 workers would be required to transport and distribute the products from the factory to wholesalers and retailers.

The figures in this portion of the study should be interpreted cautiously and with due regard to certain qualifications. The most important of these is that the hypothetical employment figure of 1 million does not represent jobs lost by American workers as a result of imports in 1960. Many of these jobs have never existed in the United States because some of the products have traditionally been imported in response to American consumer preferences based on price, quality, or style.

Nor can this figure be viewed in any sense as additional employment that would be created by producing the $6.8 billion of competitive imports in the United States. If these imports were eliminated, there would be a loss of U.S. employment in the transportation and associated activities involved in bringing these goods to the United

TABLE 2. HYPOTHETICAL EMPLOYMENT REQUIRED TO PRODUCE AND MARKET IN THE UNITED STATES IMPORTS OF ALL FINISHED MANUFACTURES AND OTHER PRODUCTS CONSIDERED COMPETITIVE WITH DOMESTIC PRODUCTS [1]

Industry group	Employment (thousands)		
	Direct [2]	Indirect [3]	Total
Total	502.2	570.7	1,072.9
Production of imports	439.5	550.4	989.9
Farm	87.1	103.9	191.0
Mining	4.0	19.3	23.3
Manufacturing	332.1	256.6	588.7
Food and kindred products	12.7	7.8	20.8
Tobacco manufactures	1.8	.5	2.1
Textile mill products	48.9	26.6	75.5
Apparel and other finished products	37.0	8.8	45.8
Lumber and wood products, except furniture	13.6	12.8	26.4
Furniture and fixtures	2.7	1.4	4.1
Paper and allied products	3.8	11.8	16.6
Printing, publishing, and allied industries	2.1	11.5	13.6
Chemical and allied products	12.4	27.9	40.3
Petroleum refining and related industries	1.2	2.4	3.8
Rubber and miscellaneous plastics products	12.8	7.2	20.0
Leather and leather products	13.3	4.1	17.4
Stone, clay, and glass products	23.3	10.4	33.7
Primary metal industries	18.8	50.2	69.0
Fabricated metal products	12.6	18.4	31.2
Machinery, except electrical	22.8	17.3	40.1
Electrical machinery, equipment, and supplies	23.5	12.5	36.0
Transportation equipment	25.0	11.7	36.7
Professional, scientific, and controlling instruments	14.3	5.1	19.4
Miscellaneous manufacturing and ordnance	29.5	8.2	37.7
Trade		26.2	26.2
Transportation		31.3	31.3
All other [4]	18.3	39.4	55.7
Replacement of plant and equipment consumed		73.7	73.7
Transportation and distribution of imports from factory to wholesalers	62.7	20.3	83.0
Trade	42.5		42.5
Transportation	20.2		20.2
All other [5]		20.3	20.3

[1] Competitive imports as defined by the U.S. Department of Commerce, Bureau of International Programs; see text for explanation.
[2] Employment which would be required to produce, transport, and distribute goods in the form in which imported.
[3] Employment in the industries which produce, transport, and distribute the raw materials, parts and components, etc., which would be used to make the products imported.
[4] Insurance, forestry, fisheries, and agricultural services.
[5] Estimated as an aggregate and not distributed among separate industries.

States. More significant quantitatively, the loss of income by foreign nations would curtail U.S. exports, with resulting declines in domestic employment.[2] Also, part of the employment estimated to be required to produce competitive imports already exists in the United States, engaged in producing raw material exports which are embodied in imported manufactured products. For example, imported cotton textiles are made in part from cotton exported from the United States. In this case, replacement of the import by U.S. production would not create additional farm employment. The same situation may exist to a lesser extent in the case of other commodities. Finally, the hypothetical employment of 80,000 workers that would be involved in transportation and distribution from the factory if the competitive imports were produced in the United States does not represent additional employment because these jobs currently exist in the transportation and distribution of actual imports.

—EVA E. JACOBS AND RONALD E. KUTSCHER
Office of Economic Growth Studies

[2] In 1960, the value of these imports represented about one-third the value of U.S. merchandise exports, including mutual security military and economic aid.

. . . If American capital which is being attracted out of the country can produce goods cheaper abroad than similar goods in America, to that extent production will be cut down in America. Instead of doing the producing in this country with immigrant labor, which has been excluded, production will take place at the source of supply of labor. As this newer competition with American goods takes place, it takes no wild imagination to foresee the possibilities of American capital in Japan with the use of cheap labor producing cotton goods so cheaply as to drive out of business home capital in America invested in the cotton mills in this country, or at least making inevitable the same demand for lowered standards from southern mills as now emanates from the northern textile mills. It would look as if it were high time for some one to step in to defend competitors from the destructive effects of their own efforts.

—Leifur Magnusson, "International Competition in Labor Conditions and the Maintenance of Labor Standards," *Monthly Labor Review*, August 1927, p. 27.

TABLE 4. RATIO OF HEALTH, INSURANCE, AND PENSION PLAN COVERAGE TO COLLECTIVE BARGAINING AGREEMENT COVERAGE OF NATIONAL AND INTERNATIONAL UNIONS, 1960 AND 1954 [1]

Percent of all workers represented who are covered by plans	1960		1954	
	Percent of unions	Percent of all workers covered by collective bargaining agreements	Percent of unions	Percent of all workers covered by collective bargaining agreements
HEALTH AND INSURANCE PLANS				
Total	100.0	100.0	100.0	100.0
80 to 100 percent	51.2	66.5	38.6	42.3
60 to 79 percent	15.2	20.2	8.9	9.5
40 to 59 percent	6.7	7.1	17.3	25.8
20 to 39 percent	3.0	2.4	8.4	11.8
0 to 19 percent	13.9	3.6	26.6	10.5
PENSION PLANS				
Total	100.0	100.0	100.0	100.0
80 to 100 percent	30.9	35.6	14.5	17.0
60 to 79 percent	18.2	29.0	7.8	21.3
40 to 59 percent	12.7	7.3	8.9	5.2
20 to 39 percent	11.5	15.6	13.4	10.1
0 to 19 percent	26.7	12.7	55.3	46.5

[1] Based on data for 165 unions in 1960 and 179 in 1954. Also see footnotes 1 and 2, table 1.

NOTE: Because of rounding, sums of individual items may not equal totals.

tracts providing health and insurance benefits for 80 percent or more of the workers they represented as compared with less than two-fifths in 1954 (table 4). Only 6 percent of all workers under collective bargaining agreements in 1960, as compared to 22 percent in 1954, were represented by unions with contracts providing benefits for less than 40 percent of the workers. Although most unions with low coverage in 1960 were small, a few unions with over 100,000 members were included.

The number of unions providing pension plan coverage for 80 percent or more of their members increased from 15 percent in 1954 to 31 percent in 1960. They included 12 of the 43 large unions that bargain for 100,000 workers or more. At the opposite end, pension benefits were provided less than 20 percent of the workers under collective bargaining agreements of over 25 percent of the unions, including 8 of the 43 large unions. Twenty percent of the unions, including both the operating and nonoperating railroad brotherhoods, had few, if any, members under negotiated pension plans in 1960 as compared with over a third of the unions in 1954.

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Domestic Employment Attributable to U.S. Exports, 1960

EDITOR'S NOTE.—*This article summarizes a report of the same title on the results of one phase of a study underway in the Bureau of Labor Statistics on the impact of foreign trade on domestic employment. It presents the findings on the volume and distribution of domestic employment attributable to United States merchandise exports. Another part of the study will contain figures showing the relationship of imports to job opportunities in the United States.*

AN ESTIMATED 3.1 million workers were required directly or indirectly to produce, transport, and market the $20.7 billion [1] of merchandise exported by the United States in 1960 (including mutual security military and economic aid). This estimate includes all American labor involved from the raw material stage to delivery of the export at the foreign port.

Exports of merchandise from the United States involve all sectors of the economy in one way or another. The export of an automobile, for example, requires employment not only in the automobile industry in the manufacture of the automobile, but also in transporting it to the port of export, handling the transaction through an exporting firm or an export sales branch of the manufacturer, loading it on an ocean freighter, shipping it to a foreign country, and insuring the cargo. All of the foregoing may be considered direct employment attributable to exports.

In addition, a substantial amount of employment is created in supporting industries which produce, transport, and market the raw materials and components, such as steel, tires, glass, and upholstery cloth, which go into the making of an automobile. Also to be taken into account is employment resulting from production of the proportionate share of plant and equipment used up or depreciated in the course of producing the automobile and component parts. All of these may be considered the indirect employment

[1] When the value of ocean transportation on U.S. vessels, insurance handled by U.S. firms, and Government export payments are added, the value is $22.1 billion.

attributable to exports. The estimated indirect employment does not include, however, the employment resulting from the income-generating effects of export-related employment, i.e., employment required to produce food, clothing, housing, etc., purchased by workers whose jobs are attributable to exports. It also excludes government employment.

Briefly, the procedure followed in converting value of exports to employment consisted of (1) assigning commodity exports to the producing industry; (2) deriving indirect output required for these exports from each of the export-supporting industries; and (3) converting the direct and indirect output requirements into employment by using output per employee ratios. Methods and sources used in making the estimates are described in greater detail in a technical note included in the full bulletin summarized here.

Of the estimated 3.1 million workers required directly or indirectly to produce, transport, and market the $20.7 billion of exports, about 941,000 were on farms and 2,140,000 in nonfarm industries. Because of the family nature of much of agriculture, the farm employment estimate covers farm operators, unpaid family workers, and hired

EMPLOYMENT ATTRIBUTABLE TO EXPORTS AND TOTAL EMPLOYMENT [1] IN THE PRIVATE ECONOMY, BY INDUSTRY GROUP, 1960

[In thousands]

Industry group	Employment attributable to exports			Total employment in the private economy [4]	Percent of employment attributable to exports		
	Direct [2]	Indirect [3]	Total		Direct	Indirect	Total
Total employment [1]	1,467.1	1,614.6	3,081.7	52,865.0	2.8	3.1	5.8
Farm	539.6	401.8	941.4	7,145.0	7.6	5.6	13.2
Nonfarm	927.6	1,212.6	2,140.2	45,720.0	2.0	2.7	4.7
Mining	28.3	61.6	89.9	709.0	4.0	8.7	12.7
Manufacturing [4]	640.6	647.0	1,287.6	16,654.7	3.8	3.9	7.7
Food and kindred products	32.9	24.4	57.3	1,778.6	1.8	1.4	3.2
Tobacco manufactures	6.0	5.8	11.7	91.5	6.5	6.3	12.8
Textile mill products	27.3	20.0	47.3	944.1	2.9	2.1	5.0
Apparel and other finished products	17.6	6.7	23.5	1,246.0	1.4	.5	1.9
Lumber and wood products, except furniture	11.6	26.4	38.0	624.7	1.9	4.2	6.1
Furniture and fixtures	2.8	2.3	5.1	370.9	.8	.6	1.4
Paper and allied products	13.1	26.7	39.8	597.1	2.2	4.5	6.7
Printing, publishing, and allied industries	6.4	24.5	30.9	894.7	.7	2.8	3.6
Chemicals and allied products	46.2	69.5	115.7	804.7	5.7	8.6	14.4
Petroleum refining and related industries	6.6	10.1	16.7	237.1	2.8	4.3	7.0
Rubber and miscellaneous plastics products	14.0	14.2	28.2	387.0	3.6	3.7	7.3
Leather and leather products	6.0	2.9	8.9	372.4	1.6	.8	2.4
Stone, clay, and glass products	11.8	17.7	29.5	619.0	1.9	2.9	4.8
Primary metal industries	31.4	139.7	171.0	1,187.4	2.6	11.8	14.4
Fabricated metal products	28.1	44.2	72.3	1,120.2	2.5	4.0	6.4
Machinery, except electrical	154.2	69.8	224.0	1,448.4	10.7	4.8	15.5
Electrical machinery, equipment, and supplies	57.1	35.2	92.4	1,326.3	4.3	2.7	7.0
Transportation equipment	[5] 104.4	27.6	131.9	1,687.5	6.2	1.6	7.8
Professional, scientific, and controlling instruments	27.0	6.4	33.4	327.3	8.3	2.0	10.2
Miscellaneous manufacturing and ordnance	[5] 36.0	6.9	42.9	594.8	6.1	1.2	7.2
Military (indirect)	----------	[6] 67.2	67.2	(7)	(7)	(7)	(7)
Trade [8]	120.3	78.3	198.6	9,786.0	1.2	.8	2.0
Transportation, including ocean (U.S. ships)	118.1	95.4	213.5	2,565.0	4.6	3.7	8.3
All other [9]	20.2	120.6	140.9	16,005.0	.1	.8	.9
Employment attributable to replacement of plant and equipment consumed [10]	----------	210.0	210.0	(7)	(7)	(7)	(7)

[1] Covers all nonfarm wage and salary employment (excluding government) and total employment on farms, including farm operators, family workers, and employees. May exceed actual number of persons employed because of dual jobholding.

[2] Covers employment for producing, transporting, and marketing goods in the form in which exported, e.g., steel, automobiles, etc. Employment required for transportation of goods is included in transportation industry, and employment for marketing in trade industry.

[3] Covers employment in the supporting industries which produce, transport, and market the materials, components, etc., which are used to make the products which are then exported. For example, the indirect employment in the steel industry is the employment required to make the steel which is not exported as steel but used to make automobiles, machinery, appliances, and fabricated steel products which are then exported.

[4] Farm employment estimates for 1960 from *Farm Labor*, U.S. Department of Agriculture, and *Census of Agriculture*, U.S. Department of Commerce, Bureau of the Census; manufacturing employment estimates from 1959 *Survey of Manufactures*, U.S. Department of Commerce, Bureau of the Census; employment for nonmanufacturing industry groups based on 1960 employment estimates by the U.S. Department of Labor, Bureau of Labor Statistics, contained in *Employment and Earnings*, November 1961.

[5] Includes exports of major military end items such as military vehicles, aircraft, ships, and ordnance including small arms and ammunition. Of the total military direct employment of 65,900 workers, about 29,600 are in the transportation equipment industry group and 26,300 in ordnance and miscellaneous manufacturing.

[6] The indirect employment required to produce major military exports was not estimated in detail but as an overall figure and therefore could not be distributed to the individual industry groups. For this reason, the indirect employment shown for military goods industries does not refer to indirect employment in that industry but to indirect employment in the industries supplying materials, parts, components, etc., to the military goods industries. Because the indirect employment resulting from military exports could not be distributed to the individual supporting industries, estimates of indirect employment in each of these industries are understated to some extent and the share of industry employment attributable to exports is also understated.

[7] Not available.

[8] Excluding eating and drinking establishments.

[9] Covers utilities, communications, all business services, forestry, fisheries, agricultural services, and contract construction.

[10] Employment required to replace plant and equipment used up in the course of producing, transporting, and marketing the goods exported was estimated as an overall total and therefore could not be distributed to individual industry groups. Because employment could not be distributed to machinery and construction industries and supporting industries, estimates of indirect employment in each of these industries are understated.

NOTE: Because of rounding, individual values may not add to total.

workers; the nonfarm employment estimate covers wage and salary workers only (excluding government).

The jobs attributable to exports represented almost 6 percent of the total farm and private nonfarm employment in 1960, with export-related farm jobs accounting for 13 percent of total farm employment and export-related nonfarm jobs almost 5 percent of total private nonfarm employment. (See accompanying table.) It required on the average slightly more than one worker in supporting industries for every worker directly involved in making, transporting, or marketing goods for export.

The employment attributable to exports varied, of course, from industry to industry, both in terms of absolute numbers as well as a proportion of total employment in a given industry. In addition, there was interindustry variation in the ratio of direct to indirect employment.

In general, industries with highly fabricated products such as machinery and transportation equipment have a much higher proportion of direct than indirect employment attributable to exports. Conversely, the industries, such as mining, chemicals, and primary metals, which provide the raw material for the more fabricated products to be exported have a much higher ratio of indirect to direct employment attributable to exports.

Although total manufacturing is the single largest sector in the array of export employment, it still represents less than half the total (42 percent). The farm sector accounts for almost one-third (31 percent), more than twice its proportion of total employment in the private economy. Manufacturing also constitutes a larger proportion of export employment than of total employment, but by a smaller margin.

Of the individual manufacturing industry groups, five stand out as making heavy contributions to export employment: chemicals, primary metals, machinery, electrical machinery, and transportation equipment. The share of the machinery and primary metals industries in total export employment would be even higher if it were possible to distribute by industry the indirect employment attributable to military goods production and employment attributable to replacement of plant and equipment.

—Eva E. Jacobs and Ronald E. Kutscher
Division of Productivity and Technological Developments

Earnings in Life Insurance Offices, May–July 1961

Actuaries (class A), performing highly complex and specialized studies, averaged $288.50 a week in May–July 1961, and were the highest paid among the 29 occupations covered by a survey of salaries in life insurance offices conducted by the Bureau of Labor Statistics.[1] Nationwide averages for the remainder of the jobs studied ranged from less than $60 a week for routine clerical jobs to over $155 for experienced underwriters and data processing systems analysts and $190.50 for class B actuaries. Men accounted for about a fourth of the 107,800 nonsupervisory office employees in establishments within the scope of the survey, and substantially outnumbered women in jobs with weekly averages of more than $100. Regionally, occupational averages tended to be highest in the Pacific and Middle Atlantic regions and lowest in the Southeast region. Virtually all of the workers covered by the study were provided paid holidays and vacations, as well as various types of insurance benefits.

Earnings

The 29 occupational classifications for which earnings data were obtained and reported in the accompanying table accounted for a third of the nonsupervisory office employees within the scope of the survey. Nationwide average weekly salaries for the 14 occupations predominantly staffed by men ranged from $77 for class B tabulating machine operators to $288.50 for class A actuaries. The 15 occupations primarily staffed by women accounted for four-fifths of the nearly 36,000 employees for whom earnings data were obtained. Average weekly earnings for these occupations ranged from $53.50 a week for class B file clerks to $83 for class B correspondence clerks.

[1] The study was limited to home offices and regional head offices of life insurance companies (part of industry group 631 as defined in the 1957 edition of the *Standard Industrial Classification Manual*, prepared by the U.S. Bureau of the Budget). Local and regional offices not having all or nearly all of the normal life insurance administrative functions, including underwriting, and establishments employing fewer than 50 employees at the time the survey lists were compiled were excluded.

Average weekly earnings, as used in this article, are based on hours for which employees receive their straight-time salaries.

A more comprehensive account of this survey will be presented in BLS Bull. 1324, *Industry Wage Survey: Life Insurance, May–July 1961*.

CSI

Coalition of
Service Industries, Inc.

Statement of the Coalition of Service Industries, Inc.
and the MTN Coalition to the
Senate Governmental Affairs Committee
Subcommittee on Oversight of Government Mangement

April 29, 1993

We appreciate the opportunity to submit a statement to the Subcommittee as we share your concern with the very important subject of government statistics on trade.

The Coalition of Service Industries (CSI) is an association of U.S. service companies dedicated to raising public awqareness of the importance of the service sector and to achieving fair and equitable treatment for service firms domestically and abroad. The MTN Coalition is a broad-based alliance of American private sector interests committed to a strengthened and more effective multilateral trading system.

The thesis of CSI and the MTN Coalition is that vastly improved statistics concerning the service sector would present a more accurate picture of the U.S. economy and thus allow decision makers in the private and public sector to make better informed decisions.

The service sector is the fastest growing component of the nation's economy. Services, generally defined to include the entire "non-goods" producing sector, represent almost 70 percent of Gross Domestic Product and employ over 77 percent of the workforce in the United States. Every state has more people employed in service jobs than in manufacturing, agriculture or mining.

Despite the importance of the service sector to the nation's economy, government statistical programs have not kept pace in describing these dynamic industries. There is significant lack of detail in virtually every statistical area for services—and the trade data is no exception.

Trade Data

We know that services exports have grown steadily in the past several years, from $77 billion in 1986 to $167 billion in 1992—an increase of 116 percent. The private services balance,* which in 1992 was $59 billion, has been consistently in surplus for over 20 years.

Still, many services transactions are not captured in either the balance of payments (BOP) or other federal surveys. For example, current trade statistics on financial services include only commissions on securities and

* The private services balance excludes receipts and payments on investments and government transactions from the Current Account.

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CSI

commodities trading, plus a few types of services rendered by commercial banks. Not available are revenues from such activities as foreign exchange trading, portfolio management, merger and acquisition advice or trading in futures, swaps and options—potentially an enormous figure. A recent report by the National Research Council estimated that exports of goods and services were underreported by over $20 billion in one year. If these transactions were added to the trade balance, the deficit might be reduced substantially.

Even using the data at hand the trade picture is distorted. Statistics on manufacturing are reported monthly, and are picked up by the press as the "trade deficit." The good news on services is reported quarterly in the BOP and is largely ignored. (Country data provides a good example: Our widely reported merchandise deficit with Japan is offset considerably by the services surplus, which in 1992 was over $14 billion.) If the overall services surplus of $59 billion is added to the $96 billion merchandise deficit, the true trade deficit in 1992 was $37 billion. This is a small portion of an economy that exceeds $6 trillion.

In addition to cross-border sales of services reported in the BOP, a large portion of international service business is conducted through locally established affiliates. Therefore, data on affiliate sales are needed to complete the trade picture. Sales of services through foreign affiliates in 1990—the latest year data are available—amounted to $118 billion. Added to cross-border sales for that year of $138 billion, this equals total U.S. sales of services of $256 billion.

Unfortunately, the government publishes sales of services through foreign affiliates <u>annually</u> and the data usually lag about two years. These data are not comparable with BOP data and are based on the industry providing the services, not the service being provided. This practice categorizes many services transactions under manufacturing businesses.

To their credit, the federal government has made important improvements to services data over the last ten years. Census has added communications and transportation surveys, and information on the FIRE group (finance, insurance and real estate) will be available for the first time in 1994. However, despite the rapid growth in federal government spending over the past decade, total budget authority for the major statistical agencies has declined. Adequate appropriation is necessary if services programs are to be expanded and improved—indeed if all data are to keep pace with the rapidly changing international business environment.

The United States' statistical system is among the finest in the world, but problems of timeliness, accuracy, comparability, and usefulness must be addressed. Good public policy depends on good information.

Attached is a statement, "Trade Statistics," of the MTN Coalition published March 16, 1993 addressing the question of the true U.S. trade deficit. The statement also describes the MTN Coalition.

THE MTN COALITION

America's Leadership in the Multilateral Trade Negotiations

TRADE STATISTICS

Summary: The 1993 Current Account figures published today indicated a true US trade deficit (combining the 1992 merchandise trade deficit with the 1992 private services surplus) of $37.2 billion.

March 16, 1993 The Department of Commerce today released its Current Account figures for 1992, indicating a Current Account deficit of $62.4 billion. With the release of the 1992 Current Account and its components, the true US trade deficit for 1992 can be computed. The **true trade deficit** combines the merchandise deficit and the private services surplus and is $37.2 billion for 1992.

The Current Account measures all international transactions for the year. Within the Current Account are the merchandise trade deficit for 1992 of $96.3 billion and the private services surplus of $59.1 billion. In addition, the Current Account includes government payments, incoming and outgoing, and income from investments, also incoming and outgoing. These flows are not included in either the merchandise figures or the private services figures.

"Merchandise" includes all types of goods, including manufactured goods, chemicals, agricultural commodities and minerals. "Private services" consist of all kinds of exports and imports of the US service sector. Some of the principal export categories include air passenger travel, inbound tourism, professional services, financial services, audio/video rentals, construction and engineering services, education services, insurance services and medical services.

For 1991, the true trade deficit was $21.2 billion, derived from the 1991 merchandise deficit of $73.4 billion and the private services surplus of $52.2 billion.

The United States services surplus has been rising rapidly, setting a new record each year for the past several years. The 1992 figure is $59.1 billion. The 1991 figure was $52.2 billion, and in 1990 the U.S. services surplus was $43 billion. Service exports also hit records in those years.

1992 merchandise exports rose 6% to $439 billion, a remarkable achievement considering that most other major markets are currently in recession or very slow growth.

Harry L. Freeman
Executive Director

March 16, 1993

The MTN Coalition is a broad-based alliance of American private sector interests firmly committed to a strengthened and more effective multilateral trading system. Our 14,000 members include U.S. corporations of all sizes from a broad spectrum of industries, consumer groups, and agricultural interests. We strongly advocate a comprehensive and strong conclusion to the Uruguay Round of multilateral trade negotiations under the auspices of the GATT.

EXCERPT FROM BOOK ENTITLED "NAFTA: AN ASSESSMENT," BY DRS. GARY CLYDE HUFBAUER AND JEFFREY J. SCHOTT, SENIOR FELLOWS, INSTITUTE FOR INTERNATIONAL ECONOMICS, INCLUDING LONG-TERM SCENARIO OMITTED FROM BOOK, 1/14/93.

Table A.2. US Jobs Supported by Exports to Mexico and Dislocated by Imports from Mexico, 1990 and Future Scenarios, Resulting From the Impact of NAFTA and Related Reforms. /a

	Median weekly wage	Base level (1990) Exports	Base level (1990) Imports	Scenario for the Foreseeable Future Exports	Scenario for the Foreseeable Future Imports	Scenario for the Foreseeable Future Net job change vs. 1990	Scenario for the Foreseeable Future Percent of total US jobs	Very Long-Term Scenario Exports	Very Long-Term Scenario Imports	Very Long-Term Scenario Net job change vs. 1990	Very Long-Term Scenario Percent of total US jobs
Merchandise trade (billions)		$28.4	$30.8	$45.1	$38.5			$58.4	$60.8		
Average weekly wage		$420	$424	$420	$434			$418	$424		
Total jobs supported/ displaced (thousands)		538.0	579.9	834.4	724.9	171.4		838.6	903.9	-5.4	
Jobs, by type (thousands)											
Executive, administrative, & managerial	$620	59.1	87.3	91.9	86.1	17.9	0.12	93.0	107.4	-6.2	-0.04
Professional specialty	$634	28.6	33.8	47.0	42.2	9.0	0.06	53.7	60.4	-2.5	-0.02
Technicians & related support	$508	12.8	15.5	20.3	19.4	3.7	0.10	22.9	28.3	-3.7	-0.07
Sales	$418	75.6	80.6	120.1	100.5	24.4	0.17	85.3	88.0	2.1	0.02
Administrative support, including clerical	$369	61.1	87.5	97.0	84.4	19.2	0.10	92.1	101.1	-2.6	-0.01
Service	$280	34.8	37.0	54.9	46.3	11.1	0.07	39.4	41.5	0.3	0.00
Precision, production, craft, & repair	$483	83.5	94.1	132.6	117.8	25.6	0.19	133.1	151.3	-7.6	-0.06
Machine operators, assemblers, & inspectors	$336	85.7	76.8	136.1	96.1	31.2	0.41	166.1	131.1	26.3	0.34
Transportation & material moving	$419	30.8	35.9	48.6	44.9	9.0	0.18	41.6	53.6	-6.7	-0.14
Handlers, equipment cleaners, helpers, & laborers	$305	31.3	32.0	49.7	40.0	10.4	0.23	45.2	43.7	2.3	0.05
Farming, forestry, & fishing	$363	34.1	39.3	54.3	48.1	10.2	0.30	86.8	97.4	-5.4	-0.16

United States Senate

COMMITTEE ON
GOVERNMENTAL AFFAIRS
WASHINGTON, DC 20510-6250

June 14, 1993

The Honorable Ronald H. Brown
Secretary
U.S. Department of Commerce
14th Street and Pennsylvania Avenue, N.W.
Washington, D.C. 20230

Dear Mr. Secretary:

On April 28, the Subcommittee on Oversight of Government Management held an important hearing on the North American Free Trade Agreement (NAFTA). This hearing confirmed that the data used to promote NAFTA to members of Congress and the public are misleading and distort the true export picture.

Because of these distortions, we take issue with your use of the Department of Commerce publication entitled "U.S. Exports To Mexico: A State-By-State Overview 1987-1991." This book details the level of gross exports to Mexico on a state-by-state basis and links those exports directly to jobs in each state based on the Department of Commerce publication "U.S. Jobs Supported by U.S. Merchandise Exports to Mexico." The distortions in this methodology are twofold. First, looking only at gross exports with respect to job growth ignores the job dislocation impact of imports. Second, not all exports are job creating; some, in fact, cause job loss. We, therefore, urge you to discontinue the use of the state-by-state exports book and let the NAFTA debate be argued on its own merits without misleading export data.

Let us describe these problems in more detail. Proponents of NAFTA claim NAFTA will be good for the U.S. because U.S. exports to Mexico will grow more and exports mean more U.S. jobs. The Commerce Department estimates, in its report entitled "U.S. Jobs Supported by U.S. Merchandise Exports to Mexico," that for every billion dollars worth of U.S. exports to Mexico, roughly 20,000 jobs are created.

The Honorable Ronald H. Brown
June 14, 1993
Page Two

We are told over and over again that increased exports are directly translated into job growth. For example, we're told that about 31,000 jobs in Michigan depend upon exports to Mexico. Economists, government agencies and trade analysts have used this assumption to project future job gains through even larger exports under NAFTA. But the Commerce Department projections on job gains include only half of the real-life equation. In a trade agreement, both sides reduce barriers, increasing exports in both directions. We have not seen a Commerce Department estimate of how many U.S. jobs will be lost because we will be importing more products from Mexico instead of producing them at home. To be credible, projections on job gains must factor in both imports and exports, not just gross exports.

And we cannot simply assume that all exports to Mexico mean job growth. In fact it is not unusual for U.S. exports to grow while U.S. jobs are lost, not gained. First, if a parts factory in Michigan employing 2,000 people supplies a car assembly factory in Michigan employing 1,000 people, there are no exports involved. But if the assembly plant is now moved to Mexico, and the parts are still supplied to that assembly plant from Michigan, U.S. exports to Mexico have gone up -- those parts are now exports -- but the 1,000 U.S. assembly jobs have been lost in the transaction.

Second, at the hearing the Census Bureau testified that all machinery and equipment are counted as exports, even though that equipment may be exported in order to relocate a former American factory into another country. In that case, although exports have gone up, U.S. jobs have been lost, <u>not</u> gained.

Third, Mexico's maquiladora program allows U.S. companies to ship raw materials and parts into Mexico duty free providing the finished or partially assembled product is shipped back to the U.S. or exported to another country. GAO testified at the hearing that all the supplies and materials sent to maquiladoras are counted as exports from the U.S. and all the products shipped back to the U.S. for sale are counted as imports even though the materials were simply shipped to Mexico for assembly, not consumption. We have not created a new export market for U.S. goods with maquiladora trade. Instead, we are simply trading those parts with ourselves. Yet, in our trade data, these shipments to and from maquiladoras -- comprising roughly 39 per cent

of our total trade with Mexico -- are counted by our federal agencies as exports and imports even though they don't represent real trade with Mexico.

Finally, state-by-state trade data is weak and unreliable. Trade officials acknowledge that a significant percentage of the exports attributed to a specific state may actually not be from that state. Commerce Department personnel who compiled the report on state-by-state exports to Mexico acknowledged that the Department has no way of tracking exports from any particular state, but can track only the U.S. points from which exports leave the country.

The Commerce Department has nonetheless published and used this book to advertise the importance of NAFTA by localizing export figures to Mexico on a state-by-state basis and claiming that all exports from those states create a specific number of jobs in those states. Again, because of the distortions described above, we urge you to discontinue the use of the state-by-state exports book.

Sincerely,

Carl Levin
Chairman

Byron L. Dorgan
Member

Subcommittee on Oversight of Government Management

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